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(THAILAND, INDONESIA, MALAYSIA,
SINGAPORE AND THE PHILIPPINES),
HONG KONG AND LAOS

A REPORT
TO THE
COMMITTEE ON FOREIGN RELATIONS
UNITED STATES SENATE



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LETTER OF TRANSMITTAL

UNITED STATES SENATE,
Washington, D.C., September 1981.

TO THE MEMBERS OF THE COMMITTEE ON FOREIGN RELATIONS:

The East Asian and Pacific Affairs Subcommittee held a series of hearings in July, 1981 on relations between the United States and the countries of Southeast Asia, principally those which are members of the Association of Southeast Asian Nations (ASEAN): Thailand, Indonesia, Malaysia, Singapore and the Philippines. Witnesses, both from the Administration and the public, testified on the political and military situation in the southwest Pacific, as well as the state of our trade and investment in the area. As a follow-on to this series of hearings, I made a visit to the ASEAN capitals, Hong Kong and Laos in August. The results of my fact-finding mission will be found in the attached report.

My overall impression is that the ASEAN nations are prosperous, vigorous and optimistic. There is great hope for the future in Southeast Asia, yet all have difficult challenges ahead. They must narrow the gap between rich and poor and raise the overall standard of living of their people. All of the ASEAN nations in seeking this goal will have a need, to some degree, of technology and managerial skills which the United States has in abundance. In addition U.S. trade and investment will play a major role. We hold many important values and ideals in common with the ASEAN nations and this will make our collective efforts easier. The five ASEAN governments whose officials I visited are enthusiastic in their support of a re-invigorated, firm and consistent America. There is an important role for the United States to play in promoting the peace and prosperity of Southeast Asia.

I was the first member of the Senate to visit Laos since 1976. I was courteously received by the officials of the Lao People's Democratic Republic. We discussed at some length the absence of information on our servicemen lost in or over Laos during the Indochinese conflict and the importance which the American people attach to an accounting of our POWs and MIAs. I presented to the Lao Government the dossiers on seven of our missing and asked that a particular effort be made to provide some clue as to their fate. The Acting Foreign Minister said that he would ask local authorities to investigate these cases, while at the same time reiterating the well-known position of his government that there are no Americans known to be alive in Laos at this time. In the context of cooperation with the Lao Government on this subject, I told the Acting Foreign Minister that I would use whatever influence was at my disposal to encourage the U.S. Government to embark on a program of removal of unexploded bombs which con-

tinue to pose a hazard to Lao farmers in many areas. I expressed the hope that such a humanitarian gesture would improve relations between our two countries and that the Lao Government would be more forthcoming in providing information on the ultimate fate of Americans missing in Laos. The Acting Foreign Minister welcomed my suggestion as evidence of American "good will" and promised that his government would give it careful consideration. I am pleased to report to the Committee that the Administration is pursuing my suggestion though the outcome still remains in doubt.

I would like to acknowledge my debt to the Department of State, the six American Embassies and the Consulate General which I visited during this fact-finding mission. In addition, the preliminary information provided by the State Department, as well as the advance arrangements which the Bureau of Congressional Relations and the East Asia Bureau made were invaluable. The success of the mission was in large measure the result of these arrangements.

S. I. HAYAKAWA.

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BACKGROUND AND PURPOSE

The East Asian and Pacific Subcommittee of the U.S. Senate Committee on Foreign Relations completed in July a series of hearings on U.S. policy in Southeast Asia and U.S. relations with the ASEAN nations (Thailand, Indonesia, Malaysia, Singapore and the Philippines). The Subcommittee examined U.S. national interests in Southeast Asia including security, economic and commercial interests. The Subcommittee also considered U.S. refugee policy in Southeast Asia.

As a follow-on to these hearings held in Washington I visited the ASEAN capitals, Laos and Hong Kong from August 5th to 20th, 1981. The principal subjects examined during this fact finding trip were as follows:

- The state of our bilateral relations with each of the ASEAN countries including those issues outstanding between and among us and how the ASEAN governments view these issues;

- The threat to United States ASEAN interests posed by the Soviet presence in Southeast Asia and by their Vietnamese clients and the role played by the People's Republic of China in Southeast Asia;

- The contribution to economic development of the region made by U.S. investment and how this contribution might be increased;

- The status of U.S. trade relations with ASEAN nations, our fifth largest trading partners, and how that trade can be expanded;

- The effectiveness of our developmental and security assistance programs in Southeast Asia with a view toward recommending changes if appropriate in the Foreign Assistance legislation for fiscal year 1983.

In addition to the preceding subjects which apply to a greater or lesser extent to all of our friends in ASEAN, I have had a continuing interest in three specific areas which I discussed with U.S. Embassy personnel and foreign officials as appropriate:

- The accounting for U.S. personnel listed as missing in action or as prisoners of war as a result of the conflict in Vietnam;

- The status of the U.S. refugee program in Southeast Asia;

- and

- The effect which the bumper crop of opium expected in the "golden triangle" this year will have on the drug problem in the United States and elsewhere.

I believe that this report of my examination on the scene of our relations in Southeast Asia, combined with the Committee's hearings recently completed, presents a comprehensive and thorough description of U.S. policy interests and problems in this very impor-

tant area of the world. In addition it will provide valuable information for the Subcommittee in its future deliberations. It seems clear to me that we should explore further the dangers inherent in the bumper opium crop and its implications for the drug scene in the United States. Further, we should explore ways in which trade problems with the ASEAN nations can be resolved and trade expanded. More detailed recommendations are contained in the report which follows.

OVERALL IMPRESSIONS

The ASEAN nations are all prosperous, vigorous and optimistic. There is great hope for the future in Southeast Asia, yet all have difficult challenges ahead. They must narrow the gap between rich and poor and raise the overall standard of living of their people. All of the ASEAN nations in seeking this goal will have a need to some degree of technology and managerial skills which the United States has in abundance. In addition U.S. trade and investment will play a major role. We hold many important values and ideals in common with the ASEAN nations and this will make our collective efforts easier:

All five of the ASEAN countries are devoted to the principal of free enterprise and free trade;

They are dedicated to the concept of democracy, though there are authoritarian aspects to several of the governments;

They are united in the belief that communism has no place among the ASEAN partners. All in differing ways perceive a threat to their independence from the Soviet Union and China.

The five ASEAN governments whose officials I visited are enthusiastic in their support of a re-invigorated, firm and consistent America. There is an important role for the United States to play in promoting the peace and prosperity of Southeast Asia.

(3)

HONG KONG

The delegation (composition of the delegation will be found in Annex 1) departed San Francisco on August 5 and arrived in Hong Kong on August 6 for a brief stop of 21 hours. During this time, I had an opportunity to consult with the United States Consul General, his staff and members of the American Chamber of Commerce.

Hong Kong is a bastion of free enterprise. There are no restrictions on imports into Hong Kong except for petroleum products, whiskey, perfumes, and tobacco. There are some 600 U.S. corporations in Hong Kong and the two-way trade between the United States and Hong Kong amounts to \$7.7 billion annually.

Both U.S. officials and U.S. businessmen with whom I spoke commented that it did not appear to them that U.S. manufacturers are aggressively pursuing Hong Kong markets. They spoke of the need to have local manufacturers' representatives in Hong Kong who would seek out business opportunities. They also spoke of the need for state offices to be located in Hong Kong—Illinois has such an office—to promote trade and development.

There appeared to be at least two potential markets in Hong Kong to be exploited by U.S. businessmen. First there is the opportunity to sell U.S. manufactured textile goods. The Hong Kong textile industry is on the decline as the valuable real estate on which it is located is sold for other purposes. This means that less cloth is manufactured in Hong Kong for use by Hong Kong apparel industry. This gap could well be filled by U.S. textile mills. The second area of opportunity centers around the expanding market in Hong Kong for agricultural products and grocery items. The high per capita income in Hong Kong and the rising standard of living, combined with the adoption of a western lifestyle and eating habits, presents an opportunity for an expansion of U.S. trade in agricultural and grocery products. It does not appear that the potential of this market is widely recognized or exploited.

The delegation had the opportunity to discuss briefly the Indochinese refugee problem with consulate officers. Since 1975, Hong Kong has granted first asylum to about 100,000 boat refugees from Vietnam of whom some 16,000 still await permanent resettlement in third countries. Due to extreme over-population and continued legal immigration from the PRC (currently about 50,000 per year), Hong Kong now allows only those refugees with close relations in Hong Kong to settle permanently. Thus far the United States has accepted about 41,000 Indochinese refugees from Hong Kong. Out of the global authorization of 168,000 Indochinese admissions to the United States in fiscal year 1981, the United States has informally indicated to the Hong Kong Government that it will take from Hong Kong up to 18,000 refugees (about 1,500 a month) provided

that they are eligible for admission to the United States. In fact, from October 1980 through July 1981, a monthly average of 1,365 refugees were moved from Hong Kong to the United States.

The question of eligibility for admission to the United States has been much-discussed in the press and within the U.S. Government. During the past several months, the question usually centers around the motivation of the refugee: Is he departing Vietnam for political or economic reasons? The Consulate General in Hong Kong presented its analysis of this question (see Annex 2 for a complete discussion and briefing). At best this is a highly subjective judgment to make. It is difficult to draw conclusions even from the Consulate General's representative sample of the reasons for the current outflow. On the one hand, the refugees may be sharp enough to respond in a way they think will insure approval to go to the United States. On the other hand, they may be honestly giving the reasons in their own mind for leaving. But in some cases, for example, they are saying somewhat vaguely that they are searching for freedom, since they may not be able to enunciate their reasons any more specifically. Based on the information made available to me during my visit in Hong Kong, I believe it can be argued that a large percentage of the refugees continue to flee Vietnam for political reasons.

A representative of the U.S. Drug Enforcement Administration assigned to the Consulate General in Hong Kong provided a briefing on DEA's activities in Hong Kong: Hong Kong provides managerial skill, a base of operations and, to some extent, a financial center in support of drug trafficking. There are some indications that, with the recent bumper crop of opium in the Golden Triangle, trafficking into and through Hong Kong is increasing. In the last several years, when the opium crop had been severely affected by drought, the Hong Kong government had largely controlled its drug problem. The increase in drug trafficking in Hong Kong foreshadows a similar increase in the United States in the months to come. The Drug Enforcement Administration is vigorously pursuing this problem with the Hong Kong Government and hopes that a financial disclosure law will be enacted which would permit more complete financial investigation of suspected drug traffickers. The approach of the DEA is to stop the flow of money which supports the drug traffic. Both the Hong Kong Government and DEA are watching this problem closely and investigating it within the limits of the current law. It would seem advisable for the Subcommittee to highlight this problem to the U.S. Government as well as to the public. (Additional information provided by DEA will be found at Annex 3.)

Hong Kong's future is clouded somewhat by the 1997 expiration of the lease of the New Territories. The PRC long ago repudiated all "unequal" treaties such as the new territories lease but has not moved to reclaim control from the British. The Chinese have made reassuring statements that investments in Hong Kong will be secure. But Hong Kong officials worry that failure to reach a formal agreement may scare away long term capital as the deadline approaches. Despite this, opportunities for trade and investment remain substantial in Hong Kong for U.S. businesses which

are prepared to pursue the opportunities aggressively. (Additional information will be found in Annex 4.)

THAILAND

The delegation visited Bangkok for a little over a day and a half and conferred with the Prime Minister, the Foreign Minister, senior Thai military officials, American businessmen and women, as well as the U.S. Chargé d'Affaires and members of his staff. We also visited the Phanat Nikhom refugee camp.

Relations between the United States and Thailand are close and exceptionally cordial. There are no major bilateral issues outstanding between us. I assured the Thai officials with whom I met of the Committee's interest in and commitment to our oldest ally in Asia with which we first signed a treaty in 1833. We also discussed the threat to United States and ASEAN interests posed by the Soviet presence in Southeast Asia and by their clients the Vietnamese. Thailand is without question a "front line" state between Communist Indochina and the moderate ASEAN states. Somewhere between 180,000 and 200,000 Vietnamese combat and occupation forces are located in Cambodia. In addition there are 50,000 Vietnamese in Laos. In June of 1980 the Vietnamese mounted an incursion into Thailand to which the U.S. responded with an airlift resupply. Soviet air and naval presence is also found in Vietnam at Cam Ranh Bay and Da Nang, and in the South China sea. The Soviet fleet has also recently deployed to the Gulf of Thailand.

In the face of this threat, the Thai officials whom I met welcomed the U.S. policy of isolating Vietnam and urged the United States Government to keep up this pressure. The Administration's keen interest in Southeast Asia, as exemplified by its support of the ASEAN position on Cambodia is widely appreciated.

In the face of this threat and particularly in response to the 1979 Vietnamese invasion of Kampuchea, the Thai have been forced to refocus their armed forces from counter-insurgency operations to border defense. The result has been the upgrading of Thai armed forces' conventional capability to provide a greater deterrent to external aggression. The Thai defense expenditures are realistic in terms of the country's resources and economic needs. Defense spending has been about 20 percent of the budget, compared to 22 percent for economic services and 20 percent for education. A recent Thai Government decision requires all defense expenditures to be cash purchases or through government to government loans. The defense budget for fiscal 1982 will be approximately the same as for 1981, i.e., \$1.4 billion. After personnel and maintenance costs, approximately \$140 million remains for purchases of capital defense items. Thai military officials believe that about \$350 million is required annually for modest modernization and attrition. They are pressing for greater amounts of credit to accommodate this shortfall.

At the present time, the foreign military sales program in Thailand provides credit terms of a five-year grace period in addition to a five-year pay-back period. The Thai view is that they need maximum help now when the threat is at their doorstep. They therefore ask for a seven-year grace period in addition to a five-year pay-back period.

Thai military officials discussed with the delegation their priority needs. In their view, the first priority is for significantly increased foreign military sales credits at concessional terms. The next priority is for the provision of air defense weapons on an urgent basis. The Thai are most anxious to obtain the Stinger or Red Eye missile system which was requested of the U.S. Government in October 1980. This request has been denied by the Defense Department with the suggestion that the Thai purchase a similar British system. Thai military officials emphasized that they did not want to complicate their logistic system by purchasing weapons from other countries. They also believe that the British system is inferior to the American system. They are willing to accept 10 to 20 systems for a centralized training program with the remainder to be delivered in a contingency. Either the Red Eye or the Stinger system is acceptable to the Thai. The next priority following an air defense system is one hundred additional tanks in order to equip an armored division. This is followed by the need for a 155-millimeter howitzer with the longer range needed to counter Vietnamese artillery fire. These artillery weapons have been ordered from the United States and are scheduled to arrive prior to the end of 1981. Thai military officials emphasized the importance of meeting this delivery date. The final priority discussed with the delegation was the need for ground attack aircraft to replace the aging T-28 fleet and replacement for normal attrition of OV-10 and A-37 aircraft.

The International Military Education and Training program in Thailand is most enthusiastically received by Thai officials. Over 17,000 Thai students have been trained in the United States in years past. However, about 1976, a reduction in funds and the high cost of the IMET courses dramatically reduced student numbers. With the approval of the Hayakawa/Yatron amendment, the number of students programmed for fiscal year 1982 will be double that of fiscal year 1980, i.e. 121 students to 239 students. Thai officials were pleased with U.S. renewed interest in this only remaining military grant aid program. The program provides training to the Thai armed forces, which is considered vital, and also provides an opportunity to expose key military leaders to the United States.

In general, Thai officials are gratified by the prompt U.S. support provided to them following the Vietnamese incursion into Thailand. They appreciate the opportunity to participate with the JUSMAG in joint logistics planning. They were grateful for the continuing expressions of U.S. support recently voiced by Vice President Bush and Secretary Haig. They were also appreciative of the increased security assistance funding and for the Hayakawa/Yatron amendment. Officials also praised the quality and effectiveness of the U.S. logistics support system. They were, however, disturbed by U.S. unwillingness to assist in the acquisition of an air defense system and by their inability to find affordable ground

attack aircraft. They also emphasized the need for additional foreign military sales credit at generous terms.

At my request, the General Accounting Office has conducted a study of U.S. defense programs in and with Thailand. The classified study reviews U.S. defense activities since the withdrawal of American forces from Thailand in early 1976. While outlining the overall renewed security relationship, the study concentrates on foreign military sales, military training, joint military exercises, and other security related assistance. In addition, the General Accounting Office has provided the Subcommittee staff with briefings on refugee and ASEAN related matters.

The delegation had the opportunity to discuss trade and investment with the Prime Minister, the Foreign Minister and other Thai officials. Annual net investment by the United States in Thailand has doubled over the past ten years to a net inflow of \$36 million last year. The United States accounted for almost 20 percent of the total foreign investment in Thailand in 1980. Many California-based firms are Asia-oriented and are contributing importantly to the development of Thailand and the Southeast Asia region. An example is Union Oil Company's natural gas operation in the Gulf of Thailand which will very shortly come on stream and will help reduce Thailand's dependence on expensive foreign oil. A reserve of 12-15 trillion cubic feet of gas is estimated to be available and has the potential of supplying 20-30 percent of Thailand's energy requirements. This operation will increase the total in U.S. investment in Thailand by \$350 million, almost doubling the total U.S. investment in the country.

The two-way trade between Thailand and the United States approximates \$2.5 billion for 1980. The U.S. exported twice as much to Thailand as it imported from that country. Trade in both directions increased by about 40 percent last year over the previous year. I discussed one trade problem in particular with Thai officials—the Thai film tax problem. Late in 1976 the Thai import duty on films was precipitously increased from 2.2 baht per meter to 30 baht per meter (the exchange rate at that time was approximately 20 baht equal one U.S. dollar). This made the Thai tax the highest in the world. Despite efforts by the U.S. motion picture industry and our Embassy in Bangkok, the Thai Government has not reduced the duty. In response to my request, a senior Thai official indicated that it "might be necessary for the Cabinet to review its decision."

The overall impression gained in Thailand was that there are many opportunities available for U.S. businesses in the expanding Thai economy. American businessmen expressed enthusiasm to the delegation over certain provisions of the new tax bill which will have the effect of encouraging Americans to do business abroad by exempting part of their personal income from U.S. taxation. They added that what is required is for U.S. businesses to pursue opportunities aggressively. (Additional information on United States-Thai trade and investment relations will be found in Annex 5.)

In Thailand, the narcotics problem is all encompassing: opium is grown here, some refineries are in Thailand, there are many addicts and most of the Southeast Asian heroin destined for Western markets passes through Thailand. In recognition of these facts, the

United States Government has had a cooperative narcotics program with the Thai Government for many years. The Drug Enforcement Administration has a sizable staff stationed in Bangkok, Chiangmai and Songkhla. DEA agents work directly with their Thai law enforcement counterparts and a great deal of intelligence is provided by DEA to Thai police. DEA's major interest is attempting to prevent heroin from being transported to the United States. DEA agents serve as advisors to specialized narcotics law enforcement agents in Thailand working to improve Thai capabilities and have provided considerable training to Thai police.

Progress has been made in the narcotics field but there is a great deal left to be done. Corruption is endemic in Thailand and the very low governmental salaries contribute to its continuance. Many Thai do not want to stir up their otherwise relatively quiet border area with Burma. Except for narcotics trafficking, the Burmese border is the only one which does not require constant attention and there is little inclination to divert resources and manpower from the tense Cambodian, Lao and Malaysian borders. Thai anti-narcotics activities have to compete for scarce resources in a very tight budget. All of these are very real constraints which impinge heavily on the Thai ability to perform more effectively. These shortcomings are recognized by many Thai narcotics officials.

This year's bumper harvest in the Golden Triangle already is being reflected in increased activity at the heroin refineries along the Thai-Burmese border and should soon result in increased shipments to the United States. Narcotics is thus a serious problem not only for the United States but for Thailand as well. I stated most emphatically to senior Thai officials our concern in the United States over the narcotics problem. I also said that, frankly speaking, there was room for improvement in the anti-narcotics program in Thailand. I said that, as a friend of Thailand, I urged that the Thai Government take whatever measures are necessary to reduce the flow of narcotics from Thailand. In response, a very senior Thai official pledged his government's "best efforts" in dealing with this serious problem. (Additional information on the narcotics situation in Thailand will be found in Annex 6.)

The delegation had the opportunity to visit the Phanat Nikhom refugee camp, about a two-hour drive from Bangkok. In addition to inspecting this sizable camp, I talked personally to a selection of Vietnamese, Lao, and Khmer refugees and learned of their tragic past on a first-hand basis. Though no definitive conclusions can be drawn based on such a limited sample, the refugees whom we encountered could certainly never be classified as "economic."

The Indochinese refugee situation in Thailand shows continuing improvement, both in terms of the steady declining overall camp population and of reduced refugee arrivals, particularly from Laos. With present Thai Government, UNHCR, and U.S. emphasis on voluntary repatriation of the Khmer refugees and imposition of deterrence to the influx of Lao refugees, this favorable trend is expected to persist through the balance of this calendar year. Of the more than 1 million Indochinese who fled Vietnam, Laos, and Cambodia since 1975, about half have sought asylum in Thailand. The current refugee population in Thailand is approximately 232,000 persons compared to about 43,000 Indochinese refugees in

other countries of asylum in the region. In addition, about 190,000-200,000 Khmer live in encampments along the length of the Thai-Cambodian border. The average monthly arrival rate so far during 1981 is about 5,930, of which 2,230 are boat refugees. This compares favorably with the average monthly arrivals in 1980 of 10,477, of which 1,796 were boat refugees.

The UNHCR is responsible for care and maintenance of refugees in camps and holding centers and provides a basic diet as well as shelter, electricity and water. UNICEF provides food to the border Khmer. The International Committee of the Red Cross and the World Food Plan play supporting roles to UNHCR and UNICEF. Some 60 private voluntary agencies and voluntary organizations provide supplementary care including medical services, education programs, and supplementary food to refugees in the camps and holding centers.

The impression gained by the delegation was that the refugee camps are well run. The Americans and the representatives of the various international organizations are doing a splendid job in organizing and caring for the refugees. The United States has contributed some \$4 million in economic support funds to help the Thai care for those displaced and affected by the war in Cambodia. I pledged my continuing support of this humanitarian effort. I told Thai officials that Thailand has earned a great deal of good will from its humane refugee policies. I also welcomed recent Thai Government assurances that these policies will continue despite the heavy burden Thailand bears in accommodating such a large number of refugees. I also pledged my continuing support for U.S. Government policy on the resettling of sizable numbers of refugees in the United States. (Additional information on the refugee situation in Thailand will be found in Annex 7.)

Returning from the refugee camp, the delegation had the opportunity to visit a rural irrigation project which had been designed by Peace Corps Volunteers. The delegation also conferred with the Director of the Peace Corps Program in Thailand and several of his Volunteers. The dam provides irrigation for a sizable area of Chonburi province, thus enabling the farmers in the region to grow more than one rice crop per year. The delegation was impressed by the magnitude of the effort required in this project as well as the dedication and competence of the PCVs which it met. The Peace Corps has made a significant contribution to rural development in this area of Thailand and created enormous good will for the United States, all at a minimal cost to the American taxpayer.

The delegation also had the occasion to talk to the representative of the Asia Foundation in Thailand. The Foundation's 29 years in Thailand afford it access to a wide variety of key Thai, both in and out of government. It is the only major American grant making organization in Thailand (with the Ford Foundation winding down), and its mission clearly is in support of U.S. national interests. Its reputation and private nature enable it to engage in valuable activities which the Embassy cannot do or is not staffed to do. For example, the Foundation works with traditional institutions such as the Buddhist hierarchy and universities to encourage their role as constructive agents for change. The Foundation also works with minority groups to encourage their involvement in the main-

stream of national life leading to a greater sense of national unity. In this connection, it works with Muslim Village community educational development in the south as well as with tribal peoples in the north. The delegation was impressed with the wide range of activities of the Asia Foundation and considers it to be a valuable asset. Because of its wide access to important elements of Thai society, it would be a substantial loss were it to go out of business.

LAOS

The delegation spent approximately 24 hours in Vientiane, Laos and conferred with the acting Foreign Minister, other officials of the Foreign Ministry, representatives of the U.N. High Commissioner for Refugees and the U.N. Development Plan Office in Laos, as well as members of the diplomatic community, the Mennonite Central Committee, the American Friends Service Committee and UNICEF.

Because of the brevity of the visit and the restrictions placed on travel within the country, the delegation had little opportunity to learn first hand of the situation of the Lao people. However, from discussions with American Embassy personnel and other members of the diplomatic community, it was clear that Laos is indeed an extremely underdeveloped nation. The Embassy estimates that its per capita gross national product is less than \$100 per year. It suffers from a shortage of skilled labor and most people are subsistence farmers. Twenty years of war have compounded its economic troubles. Laos is, however, the recipient of large amounts of international aid from both non-Communist and Communist sources and international organizations. U.S. aid to Laos is prohibited by legislation. The United States has, however, contributed substantial funds to the International Monetary Fund, the World Bank, the Asia Development Bank, and various U.N. agencies, all of which are active in Laos. Despite this, Laos remains a desperately poor country. However, the delegation in its limited travels about Vientiane observed no starvation or beggars in the streets, which had been a common sight in years past.

I met with the acting Foreign Minister on August 10th to discuss United States-Lao relations. I explained that I was in Laos for the first time and described the fact-finding responsibilities of the East Asian and Pacific Subcommittee. I mentioned that there are about 116,000 Lao refugees in the United States and that the number continues to grow. This is particularly so in California where so many Indochinese refugees seem to wish to settle.

I observed that many Lao still risk their lives in illegal flight to Thailand because they are afraid to approach their own government to ask permission to emigrate legally. I emphasized the need for a safer, orderly means of allowing legal departure for Lao citizens. The acting Foreign Minister acknowledged the large number of Lao now in the United States. He said that his government would also prefer to see the Lao who emigrate do so by legal means but he added that many Lao do not choose to approach their government because they are escaping crimes which they have committed in Laos.

I stressed to the acting Foreign Minister that the MIA issue remains of great concern to the American people. As a manifesta-

tion of this concern I delivered to the Minister a letter addressed to the Prime Minister of Laos and signed by a number of Members of the Senate and House of Representatives (see Annex 8 for the complete text of the letter). The letter expresses the hope that the two governments may embark on a solid course leading to constructive dialogue and information on the Americans who were shot down or captured in Laos during the past decade and a half. I said that my colleagues and I fervently hope for greater Lao cooperation in the future. I acknowledged that there are fundamental differences between Theravada Buddhists and Christians toward recovering the remains of the dead. But I expressed the hope that this would not hinder resolving the MIA issue on a humanitarian basis.

I told the Minister that there were seven missing in action that were of particular interest and importance to me. I expressed the hope that some information could be located pertaining to these seven. I then presented him with the dossiers providing the case histories on the following individuals: Eugene Henry Debruin, Charles Ervin Shelton, Barton Sheldon Creed, David Louis Hrdlicka, Edward J. Weissenback, Roy S. Townley and George Lytle Ritter. The Minister said he wanted to assure the concerned families that no live Americans are being held in Laos as prisoners of war or in any other status. He stated that the Lao people empathized with those who have lost loved ones but who have not recovered their remains. He stressed his government's "demonstrated acts of good intentions" toward the United States by returning remains to the United States in 1978. He said that his government would never cease efforts to recover remains of Americans in Laos and would present any new information promptly to the U.S. Government. The Minister accepted the case folders and promised to forward them to local authorities for investigation.

I then went on to indicate the possibility of a U.S. Government sponsored program to remove unexploded ordnance from the Plain of Jars in the context of Lao cooperation in accounting for MIA's in Laos. I said that I felt most Americans would want these bombs removed before they injured Lao farmers any further. Representatives of the Mennonite Central Committee in Laos provided me with statistics (which had in turn been provided to them by Lao provincial authorities) which reflect that 23 persons had been killed in Laos in 1980 as a result of unexploded bombs, 31 in 1979, and 29 in 1978. The statistics indicate that, since 1964, 3,872 Lao have been killed in this manner and 687 wounded. The accuracy of these statistics is, of course, difficult to assess. I mentioned the possibility of sending American teams to explore the logistics and expenses involved in a program to neutralize and remove unexploded bombs. While recognizing the large expense in such a project, I expressed my personal opinion that our Government might be persuaded to finance ordnance removal in Laos on humanitarian grounds and in the context of improving cooperation on other issues. I said that I would be willing to use whatever influence was available to me within the U.S. Government in favor of a bomb removal project under U.S. Government sponsorship and in the proper context. Either American or third party technicians could be involved. I mentioned the importance I have always attached to

improving relations between the United States and the Orient and said that better friendship with Laos could be a part of this.

The Minister acknowledged that unexploded ordnance poses "definite dangers" to Lao farmers and others who lived close to dormant bomb fields. He said, however, that Laos has not been inactive in this area. His government is doing what it can itself to remove the ordnance. He thanked me for my interest and stated that a U.S. Government offer to help in the removal would indicate good faith and his government would be appreciative of that. He said that my proposal would be considered.

Turning to another subject; I told the Minister that, although the U.S. Government was aware of internal armed resistance to the Lao Government, the United States was not providing support to anti-Lao insurgents. I stressed that there is no official connection between our Government and the insurgents. I went on to add that media reports were often misleading in this respect. The United States does not have secret operatives in Laos on the pretext of searching for MIA remains. The Chargé added that the U.S. Government had specifically told the Lao in the past that the U.S. Government had no prior knowledge of and did not support the concept of private persons attempting on their own accord to enter Laos illegally to seek MIA remains. Such furtive efforts could destroy much evidence in the process. The Chargé added that what the U.S. Government wants to do is to investigate crash sites scientifically and that this is why the U.S. Government has proposed to the Lao some form of access to crash sites in order to conduct the search for remains in a manner which will resolve as many MIA cases as possible.

The Minister expressed his hope that my visit to Laos would promote better relations. I said that I came as a person interested in Asia, one who has devoted his life to bridging the cultures of Asia and the West. I expressed the hope that my visit to Laos would help improve United States-Lao relations and lead to better cooperation in all matters of concern to the American and Lao people.

In my discussions with representatives of the UNHCR^o and the UNDP, I learned that a number of H'mong have been repatriated to Laos. About 200 H'mong are a part of a formal repatriation program, in addition to about 300 who have returned to Laos spontaneously. These tribal people are participating in a reorientation program following their return to Laos and had spoken of the "miserable life" in refugee camps in Thailand as their reason for returning to their homeland. They are returning to their traditional slash and burn method of agriculture and appear to be treated much as anyone else returning to Laos is treated. The Lao Government policy is to move these tribal people to the Mekong River valley area. However, they are a very independent people and prefer to live at higher altitudes.

The UNDP efforts in Laos are limited. In existence are irrigation projects and a rice mill in southern Laos as well as two mechanical shops utilized for the repair of agriculture equipment. The agricultural modernization of the country proceeds at a very slow pace but the basic target of the UNDP is to assist in the increase of food—the most fundamental problem. The UNDP plans for the

expenditure of approximately \$42 million in Laos between 1982 and 1986. The UNDP representative also discussed the activities of the Mekong Committee. Its membership comprises representatives of Vietnam, Laos and Thailand. The United States at one time had observer status but it has withdrawn its support. The Committee has undertaken many studies primarily having to do with the development of fisheries, the resettlement of villages, irrigation projects, and the development of hydroelectric power. The activities of the Committee are supported by donations from Western European countries, Japan, Australia and international agencies. Japan is currently involved in work at the Nam Ngum Hydroelectric Dam project which it had constructed in the late 1960's. The generating capacity of this dam is being expanded and the electric power is being sold to Thailand.

Various observers in Vientiane spoke of the dire need for educated Lao to assist in the development of their country. One observer said that, before 1975, the many Lao who went to school abroad returned to Laos and that there had been very few expatriots among former Lao students. Most of these have now fled the country and there is a critical shortage of educated managerial skills. To overcome this shortage of skills, the delegation was informed that there are approximately 4,000 Soviet advisors in the country, in addition to many Vietnamese, some East Germans, and even a few Cubans. So long as these elements remain in Laos it is not possible to look upon future relations between Laos and the United States with enormous optimism. However, I did everything possible to communicate a positive attitude toward improving relations between our two countries in the context of assistance to our MIA/POW families. (Additional information on Laos will be found in Annex 9.)

INDONESIA

The delegation spent two full days in Indonesia and had the opportunity to confer with the President of Indonesia, the Chairman of the National Assembly, the Foreign Minister, the Vice Governor of Jogjakarta, other Indonesian Government officials, members of the American Chamber of Commerce and the American Ambassador and his staff.

In my discussions with Indonesian officials I emphasized the great importance which our Government and the American people attach to Southeast Asia and the need for our contacts in all areas—diplomatic, security, trade—to be intensified, particularly in view of the increased Soviet presence in Southeast Asia. In my discussions, I found that the Indonesian Government perceives the threat from China to be more immediate than that from Russia. They do not consider that danger to be primarily military or “physical” but foresee the possibility of their institutions being undermined through subversion. Some concern was expressed about the recently announced U.S. Government policy of considering requests from the People’s Republic of China to purchase weapons from the United States. I assured my interlocutors that the United States did not intend to rush headlong into a military supply relationship with China but would examine each request very carefully before arriving at a decision. The Indonesian officials whom I saw understood the U.S. desire to cooperate with China on a global political scale but questioned the wisdom of providing weapons to China which might affect the regional situation in Southeast Asia. They recommended that the United States devote its efforts to strengthening the “national resilience” and the economies of the Southeast Asian countries rather than pursuing policies with China which might undermine U.S. national interests in Southeast Asia. Some concern was also voiced by senior officials about U.S. policy on commodities, in particular tin and rice. The comment was made that extensive releases from the tin stockpile by the United States would be harmful to the economies of several Southeast Asian nations. Concern was also expressed about having an assured supply of rice from the United States. I said that I would convey these concerns to the Administration and assured them that any releases from the tin stockpile would be a very slow and gradual process designed not to disrupt the market place.

I also had the occasion to discuss the Indochinese refugee program with senior officials. Refugees from Vietnam began arriving in Indonesia in small numbers immediately after the fall of Saigon. Indonesia permitted temporary asylum for the refugees while they sought a permanent place of resettlement. On the whole the welcome for refugees in Indonesia has been much warmer than in other Southeast Asian countries. The Indonesia Government has

cooperated closely with the UNCHR in supplying food, medical items and other provisions. Indonesia has established a refugee camp on an almost empty island located south of Singapore and rapidly constructed barracks and other necessary facilities. As of the end of last June, there were approximately 12,000 refugees in Indonesia. I expressed my appreciation for the humanitarian way in which the Indonesian Government has handled this very difficult problem and pledged my personal support of the American refugee program.

Members of the delegation discussed the narcotics situation with several Indonesian and U.S. officials. Of prime concern is the utilization of Indonesia as an entrepot for illicit narcotics originating in the "Golden Triangle." Recent seizures indicate that this utilization is on the rise as narcotics transit Indonesia destined primarily for Australia and Europe and to a lesser extent the United States. Since 1974, the United States has been cooperating with the Indonesian Government in the fields of drug abuse enforcement control and rehabilitation. The U.S. Government has provided training, equipment and other materials in this effort. An agreement between the United States and Indonesia was signed in July 1979 providing for U.S. contributions of over \$100,000 in these areas. This program is being implemented vigorously on the U.S. side by the Drug Enforcement Administration, which maintains an office in the U.S. Embassy.

One area of major concern to Indonesian officials was the U.S. position on the Law of the Sea negotiations. Senior Indonesian officials stated the United States would benefit more than most from the provisions of the LOS negotiations. They cautioned that the United States should not underestimate the "outrage" of the other governments involved in the negotiations at the U.S. reluctance to continue the effort. Officials reminded me that any of the participants in the negotiations could propose changes, but the manner in which the U.S. Government had announced its review of its policy, at the very last minute, was a shock to the participants. The officials said that the negotiators do not ask the United States to accept every item in the negotiations but if the United States does not accept the overall treaty, the entire structure would fall apart and many years would be required to renegotiate the agreement. They also reminded me that if the United States had the right to review the entire negotiations of the LOS, then so had almost 100 other nations this right. Officials recommended that the United States, if necessary, withhold its signature and subsequent ratification of the treaty while allowing the other negotiators to proceed with the completion of the negotiations. I inquired if some changes to the provisions of the treaty might be possible and was assured that this was the case. However, senior officials stated that a complete revamping of the treaty was impossible. I was reminded the United States is largely responsible for the beginning of the negotiations in 1970 and that subsequent agreements and compromises had been reached on the basis of the initial U.S. position. Indonesian officials asserted again that the United States benefits more than most from the treaty and urged the United States to continue with the negotiations. I promised to convey these thoughts to the Administration.

In view of considerable Congressional interest in East Timor, the delegation made inquiries into this subject with Indonesian officials. Charges had been raised in the United States that the International Committee of the Red Cross and the Catholic Relief Services had been ejected from East Timor. Indonesian officials informed the delegation most emphatically that the ICRC and the CRS had not been ejected but rather the need of their emergency services for disaster relief had passed. The Indonesian Government is now turning to a long range development assistance program in East Timor which is not the forte of the ICRC and the CRS. The delegation was assured that both organizations are permitted to remain in contact with local representatives on East Timor, but insisted that the emergency disaster phase of international assistance had now passed. The United States has pledged \$5.5 million assistance over a period of three years and I assured the officials of my support of this program. During the delegation's discussions with Indonesian officials on East Timor, I learned how desperately poor the people of East Timor are. They live at a subsistence level on an island with no roads, poor soil which is badly eroded, and large deforested areas. Ninety-five percent of the population is illiterate—in a period of four hundred years East Timor has produced only 22 college graduates. (Additional information on the situation in East Timor will be found in Annex 10.)

In discussions with Embassy officials and representatives of the Indonesian Government, the delegation learned of the large U.S. business involvement in Indonesia. Indonesia's largest trading partner is Japan, with the United States ranking as second with 14 percent of the market. U.S. exports to Indonesia grew by 58 percent in 1980 to \$1.5 billion, with aircraft, wheat, cotton, synthetic rubber, rice and capital goods most prominent in the trade area. The expectation is that U.S. exports to Indonesia should continue to grow rapidly with the launching of some \$10 million in new industrial development projects, contracts for some of which will go to U.S. firms. Direct U.S. investment in Indonesia exceeds \$1 billion, not including the oil sector. U.S. oil companies spent about \$1.6 billion on oil exploration, development and production in 1980 and are expected to spend \$2 billion in 1981. California investment in Indonesia is substantial, with a total California investment approximating \$120 million. Kaiser has a \$90 million cement plant, Fairchild and National Semiconductors a \$26 million investment employing 7,700 workers, while Chevron, Union, ARCO, Natomas and Getty collectively produce 40 percent of Indonesia's oil. Fluor and Bechtel anticipate an expansion of their refinery projects totaling some \$2 billion.

In my discussions with American businessmen and women, they emphasized that they need the support of the U.S. Government in their relationships with Indonesians. They emphasized that the adversarial relationship between the U.S. Government and U.S. businesses abroad must be eliminated. They said that there was no need for a "Marshall plan" for Indonesia but that U.S. business must be permitted to pursue its aims without hinderance from the U.S. Government. They stated that U.S. Government pronouncements that other Asian nations should carry the burden of development in Southeast Asian nations is not helpful to American busi-

ness. If other nations are persuaded to carry the burden, their businessmen are provided with concessional loans at 7 or 8 percent interest rates with which U.S. businesses cannot compete. They emphasized the importance of the Eximbank supporting U.S. firms, particularly in the area of feasibility studies.

A number of business representatives raised the question of the U.S. Corrupt Practices Act which they asserted places them at a great disadvantage in competing with foreign business firms. Several representatives jokingly called the law the "Lawyers and Accountants Full Employment Act," saying that any proposed expenditure must be scrutinized by a battery of accountants and lawyers operating in an area with few precedents and under the careful eye of "nervous" boards of directors at home. The provisions of the Corrupt Practices Act have greatly impeded American businessmen abroad. I commented on the differing customs in various societies and the differing standards of living involved and, as recommended by the businessmen and women, promised to look into the amendment proposed by Senator Chafee to the Corrupt Practices Act.

Representatives of American business interests as well as officials of the Embassy commented to the delegation on the need to increase fellowships and other educational opportunities for foreigners in the United States. Several of the delegation's interlocutors pointed to the extensive opportunities for higher education provided to Indonesia by other nations and commented that within a few years the senior hierarchy of the Indonesian Government would no longer be oriented toward the United States. AID officials said that in the past four years they have not been able to train economists, agricultural planners and researchers but that the General Participant Training Program had been proposed for inclusion in the FY 1982 program. They stated that some 8,300 Indonesians had been trained in the recent past in Germany compared with 2,500 during the same period trained in the United States. Both American officials and Indonesians expressed the hope that an expansion of the U.S. education program would be possible.

As had been the case in Bangkok (and we were to learn later in Singapore), U.S. business interests stressed the need for American businesses to have local agents on the scene in Indonesia. They expressed the opinion that it was difficult if not impossible to pursue trade and investment opportunities without such representatives readily available in Jakarta.

I came away from Indonesia with a strong sense of the greatness of the country, the incredible variety of its culture, and the extensive natural resources which Indonesia possesses. I left with the feeling that there is an incredible economic future for Indonesia because of these natural resources and assets. The Indonesians are themselves optimistic about their future as are the American business representatives with whom I talked. There are many trade and investment opportunities in Indonesia for United States business interests which could be exploited. There are also many ways in which we can help the development of forest products, minerals and agricultural resources. Indonesia is a rich country but potentially a hundred times as rich as it is now. It is a country waiting for the people who have the capital and energy to create the

wealth that is inherent in this rich and wonderful tropical climate. I pledged to Indonesian officials whom I met that upon my return, I would encourage American businesses, especially those in California, to investigate the possibility of expanded involvement in helping Indonesia develop her own resources.

MALAYSIA

The delegation visited Kuala Lumpur for not quite 48 hours, during which it had the opportunity to confer with the Foreign Minister, the President of the Senate, senior officials of the Ministry of Defense, members of the academic world, representatives of the Peace Corps, and American businessmen and women resident in Malaysia, in addition to the U.S. Ambassador and members of his staff.

Malaysian officials whom the delegation met emphasized Malaysia's role as a part of ASEAN. They emphasized that ASEAN nations are not aligned with or allied to the United States (with the exception of the Philippines and Thailand), but that the nations collectively have an outlook which is similar to the United States. The ASEAN members are friendly toward the United States, anti-Communist and believers in the free enterprise system.

Malaysian officials praised the firm and consistent policies of the U.S. Administration and emphasized need for a strong U.S. presence in Southeast Asia. Such a presence—involving U.S. naval forces, trade interests, American investment and developmental projects—are essential in combatting the threat which is perceived by the Malaysian Government. Like Indonesia in many ways, Malaysia perceives China and Chinese subversion as a major threat and is afraid that the U.S. relationship with China will be used to China's advantage in Southeast Asia. There is also a fear that a U.S. military supply relationship with China might have unfortunate implications for the ASEAN nations. Malaysian officials see Peking's links with Communist parties in Southeast Asia as a greater threat to survival than that posed by the Soviet Union. Chinese sponsorship of such parties also encourages the Soviets to establish their own pro-Soviet Communist parties in Southeast Asia, according to some Malaysian officials. For some years, a radio station in southern China broadcast propaganda to Malaysia. On June 30, 1981, just prior to a visit by the Chinese Premier to Kuala Lumpur, the Chinese closed this radio station down. The next day another radio station began broadcasting from the Thai/Malaysia border area with similar propaganda. Such activity is a matter of great concern to the Malaysian Government. Malaysian officials theorize that China is now courting the ASEAN nations, seeking their support against the Soviet backed Vietnamese invasion of Cambodia. But they fear that once China's problems with the Vietnamese over Cambodia vanish, China might step up its influence in Southeast Asia through the local Communist parties. Russia is viewed as a more distant and longer range threat to peace and tranquility in the area. In fact, some officials hold out the hope that Russia will get out of Vietnam much as it did in Somalia and Egypt.

The delegation also discussed the Indochina refugee problem with Malaysian officials and officers of the Embassy. Since 1975, because of its proximity to Vietnam, Malaysia has received the largest number of boat refugees of any country—more than 136,000 to date. Boat refugee arrivals in Malaysia rose to alarming numbers during late 1978, with 10,000 arriving in October and 19,000 in November. Serious incidents of hostile treatment of refugees began to occur on Malaysian beaches. Arrival slowed in the first months of 1979, but then soared again in April to more than 13,000, reaching a peak of 17,500 in May. In June of 1979, the refugee population reached an all time high of 70,000, causing the Malaysian Government to discontinue its long standing policy of offering temporary asylum to Vietnamese refugees arriving by boat. Following the international conference on Indochinese refugees in Geneva in July 1979, refugee arrivals in Malaysia decreased with the participation of the UNHCR and the more than 20 countries accepting refugees for resettlement. The refugee population was reduced to just over 12,000 by the end of December 1980. The refugee population reached a low of 9,710 in March of 1981 and, at the time of the delegation's visit in Malaysia, had increased to 14,364. This recent rise is attributable to the normally high arrival rate during the period between the monsoons. The overall decline of the population and the moderate level of arrivals have made possible the closing of several of the refugee camps. Malaysia has also played an important role in permanently resettling some Kampuchean Muslim refugees. It has recently accepted between 2,000-3,000 Muslims.

Because Malaysia has played an important role in providing temporary asylum to Vietnamese refugees, the delegation took the opportunity to praise the Malaysian Government for its support of the refugee program and emphasized the need for the continuation of this support. Senior Malaysian officials expressed some concern about the possibility of a change in U.S. policy, saying that diminished interest on the part of the United States in the refugee program would cause serious problems in Malaysia. I assured my interlocutors of my personal support of the U.S. refugee policy and program.

Narcotics is a serious problem in Malaysia. Malaysia is the primary trans-shipment country for Southeast Asian heroin from Thailand to Europe. Additionally it is significant in its trans-shipment role to Australia and to a limited extent to Singapore and Indonesia. During 1979, the primary Malaysian-Singaporean narcotics syndicate operating in Europe was significantly disrupted and dismantled by the combined efforts of Malaysia, Singapore, European law enforcement authorities and the U.S. Drug Enforcement Administration. However, with the bumper crop of opium this harvest and the formation of new syndicates, Malaysia is expected to resume its extensive role in the illicit traffic. Malaysia realizes the seriousness of its narcotics problem, and has moved to reorganize its police to cope with the drug traffic. Malaysia is attempting to attack the problem from enforcement, prevention, demand reduction and rehabilitation points of view. The U.S. Drug Enforcement Administration is working closely with the Malaysian Government in efforts to combat the narcotics problem. DEA has a joint enforcement program with the Malaysians, provides technical

assistance to Malaysians and concentrates its efforts in Penang and along the Thai-Malaysian border. The overall program is being enthusiastically and vigorously pursued by officials of DEA on the scene in Malaysia.

The delegation discussed U.S. trade and investment with both officials of the Malaysian Government and U.S. businessmen. The United States is Malaysia's second largest trading partner after Japan, maintaining a market share of 14 percent of total Malaysian imports in 1979. Malaysia estimates exports to the United States for the same year surpassed \$1.3 billion, consisting primarily of rubber, tin, palm oil, timber products and crude petroleum. Malaysia became California's tenth ranking trading partner during the first half of 1980, as California-Malaysia trade passed the \$1 billion level for the first time in any six month period. Malaysian imports from California totaled \$447 million, up 52 percent over the previous six months, while Malaysian exports to California totaled \$579 million, up 71 percent. This trade accounted for roughly half of U.S. trade with Malaysia. Malaysia's exports to California consisted primarily of finished electronic components and high quality low sulphur crude oil. Malaysia's imports from California included chips and packaging materials for semi-conductors, electronic testing equipment, aircraft parts, and agricultural products, especially cotton and fruits. Malaysia is one of California's fastest growing trading partners. There are a total of 26 California firms with subsidiaries in Malaysia. These firms have a total investment of just under \$100 million and employ 17,000 Malaysian workers.

With a stable government dedicated to national development, a broad export base, and a strong recent history in combating inflation and unemployment, Malaysia's future development prospects are bright. Malaysia should remain one of the most attractive countries in Southeast Asia for trade and investment. The economic development of Malaysia is a model of success with an 8 percent growth rate in 1980 and approximately the same expected in 1981. Senior officials, however, spoke of the need to increase the agricultural production of Malaysia, the growth of which has lagged behind the overall economy. Government officials seemed receptive to a suggestion which I made that a team of California experts might be dispatched to Malaysia to investigate how agricultural production might be significantly increased.

The export of tin and rubber are important to Malaysia's economy and the United States is a major importer of both commodities. Thus, both countries approach the commodity issue from different perspectives which inevitably produces conflict. The United States has worked together with Malaysia to produce an international rubber agreement and the United States has participated in the Fifth International Tin Agreement. Unfortunately the United States has not been able to accede to a recently negotiated text for the Sixth International Tin Agreement and this is a source of some bilateral friction which senior officials discussed with the delegation. They expressed concern that the United States might sell tin while the world market is soft and they have considerable apprehension about the capabilities of the United States to disrupt the world market. I pointed out to my interlocutors the requirements

of U.S. law which says that world markets should not be disrupted by U.S. sales.

The delegation had the opportunity to spend an evening with the Director of the Peace Corps and a number of his Volunteers. The Peace Corps program in Malaysia is one of the original programs, begun almost 20 years ago, when Volunteers were invited to assist the country's development through work in a number of different projects. Twenty years ago, the Peace Corps was involved in nursing, teaching, architecture, surveying, rural health and community development. Most of these functions have now been taken over by the Malaysians themselves. Today the Peace Corps works in agronomy, irrigation, engineering, agricultural cooperatives, fisheries, research and a farm youth program. In health, Peace Corps Volunteers work in the fields of malaria control, TB control, social work, food and nutrition, and drug rehabilitation. In recent years, the Peace Corps education effort has been largely confined to secondary school math and science teaching, and science teaching at the university level. In the near future, there will be sufficient numbers of trained Malaysians to take up these science oriented teaching jobs. The Peace Corps Volunteers whom the delegation met, are a dedicated, enthusiastic and competent group who are making a major contribution to the improvement and development of Malaysia and to Malaysian/American relations. (Additional information on the Peace Corps in Malaysia will be found at Annex 11.)

As I said to the press on my departure from Kuala Lumpur, I was delighted to see the incredible energy and vitality of Malaysia. The economic and political progress which the Malaysians are making is indeed noteworthy. They have shown extraordinary political skill in creating a stable country in a multi-racial environment. Politically it has not been easy. In fact, it has been difficult on many occasions, but the Malaysians have the wisdom to unite together to form a unified nation. All whom I met, American and Malaysian, were "bullish" on U.S. trade and investment. The Malaysians are seeking foreign investment and our two-way trade, led by California, is growing by leaps and bounds. The Malaysians are particularly interested in attracting smaller size firms and capital intensive industries to Malaysia. They are sending foreign investment missions regularly to the United States (and to California in particular). There is a feeling among many whom I encountered that Malaysia is about to "take off" and that rapid economic expansion is about to begin. Malaysia is certainly a "land of opportunity" for American business interests.

SINGAPORE

During the course of its 48-hour visit to Singapore, the delegation conferred with the Prime Minister, the Foreign Minister, officials of the Ministry of Defense, members of the academic community, the American Business Council (including California-based private trade and investment representatives), in addition to the U.S. Ambassador and his staff.

In my conversation with the Prime Minister, he emphasized the need for a strong United States, strong in economic and military terms. All of the officials with whom I spoke were heartened by the resurgence of U.S. interest and involvement in Southeast Asia and encouraged by the foreign policy of the present Administration. They emphasized the importance of Singaporean membership in ASEAN, which they characterized as having an identity of views and an internal harmony. This harmony in turn brings investment dollars into ASEAN and promotes economic development which, in the view of many officials, is the best assurance of security for the ASEAN nations.

Singaporean officials emphasized that much has happened since 1975 and the withdrawal of the U.S. presence from Vietnam. Many were afraid that it would be a long time before the United States became reinvolved in Southeast Asia again. Others thought that U.S. investment in Southeast Asia would also be withdrawn. In the time that has passed since 1975, the Soviets have seized the opportunity and established a very real presence in Southeast Asia. Their fleet has appeared in the Gulf of Siam. The Soviets now have a "niche" in Southeast Asia which they did not have ten years ago. The United States views this as part of the global strategy of the Soviets, according to Singaporean officials, and therefore considers a global solution. The ASEAN nations understand why the United States sees China as playing a role in this global problem. While the countries of Southeast Asia have mixed views about China's objectives in the region, China certainly has a role to play vis-a-vis the Soviets on the world scene. But in Southeast Asia, China has supported insurgencies, interfered in internal affairs, and has an image of subversion. China is now attempting to change its image to one of friendliness, but, to many in Southeast Asia, this sounds like a classic Communist approach—now in the United Front stage. Singapore officials with whom I discussed the threat to Southeast Asia emphasized that the United States must understand how China is viewed. China cannot act as a local "sheriff" in Southeast Asia. A U.S. presence is essential. I assured the officials whom I encountered that the thrust of the new Administration is to reassert American influence in Southeast Asia and that any relationship that might develop with the Chinese would not be at the expense of our friends among the ASEAN countries.

I discussed with Singaporean officials the major role which the Singapore Government has played in seeking a solution to the Cambodian problem. They cautioned that a return of the previous Khmer Rouge government to power cannot be tolerated since such a government would lose international support for a fair and equitable solution in Cambodia. Officials impressed on me the importance of having a credible, non-Communist group around which to gather international support. I commented that it was my understanding that the Administration supported the rallying of such a group and was prepared to provide political and moral support to any such group which might emerge.

The delegation discussed the Singaporean economy, trade, and investment with Singapore officials and American businessmen as well as Embassy staff. The Singapore economy grew faster in 1980 than in 1979. Gross domestic national product is estimated to have grown by more than 10 percent in real terms in 1980, compared with 9.3 percent in 1979. One quarter of the gross domestic product is in manufacturing and one quarter in foreign trade. Singapore has the third largest petroleum refining capacity in the world and is the third busiest port. The consumer price index increased by 6 percent in 1980. Unemployment remained at just over 3 percent. Inward foreign investment commitments totalled over \$532 million in the first three quarters of 1980 compared with \$381 million for all of 1979. Both imports and exports grew rapidly—about 34 percent each. The Singapore Government actively promotes foreign investment and there are many opportunities for American businessmen. (For a detailed description of the investment climate of Singapore prepared by the U.S. Embassy see Annex 12.)

The members of the American Business Council with whom the delegation conferred expressed a number of concerns:

Some members complained that the Department of Commerce does not assist American businessmen to the extent possible since it is proscribed from "promoting the export of jobs from the United States." Others commented that the Department was encumbered by too much bureaucracy. As had been the case in other stops in Southeast Asia, American businessmen do not feel that the U.S. Government is particularly interested in the success of U.S. business abroad. They see this as a significant disadvantage when compared to the assistance which other governments such as Germany and Japan provide to their businessmen.

A particular complaint was that the Export-Import Bank is not competitive with similar Japan and West German financial institutions. Business representatives said that they need Eximbank assistance for feasibility studies, to show the value of U.S. products, and as "seed money." They particularly foresaw the need for an Eximbank representative in the Southeast Asian area. Several were familiar with the proposal made by Charles Robinson before the Subcommittee during the ASEAN hearings in July and urged the Administration to set up an office in the area. Such an office could incorporate representatives of the Eximbank, OPIC, the Trade and Development Program, and the Foreign Commercial Service.

As had been the case in earlier stops, the Foreign Corrupt Practices Act came under heavy attack. The reasons therefor were

much the same as previously described in Jakarta. Several members of the Business Council recommended that, as an initial step, the legislation be renamed as the Foreign Business Practices Act, omitting the word "corrupt." All expressed interest in the Chafee amendments to the Act.

During my consultations with the American Business Council I learned that California, because of its size and location, accounts for a disproportionately large share of the trade between Singapore and the United States. One California financial institution reported to me that in the first eleven months of 1980, total California-Singapore trade was over \$2 billion, out of a total United States-Singapore trade for that period of \$4.5 billion. Exports from California to Singapore were \$1.4 billion, while imports were \$627.3 million. Exports were dominated by machinery, including electrical machinery, electronics, earthmoving equipment, and aircraft. California agricultural exports totaled over \$75 million, over half of total U.S. agricultural exports to Singapore. The Embassy has identified 74 firms from California represented in Singapore. The total American investment in Singapore is estimated to be \$2.5 billion and perhaps as high as \$3 billion.

The Singapore Government for years has maintained political stability and ethnic harmony within a democratic framework. This stability has proved attractive to foreign investors and the government has enhanced it by fashioning an economic environment and an array of generous incentives designed to attract foreign investment. This, combined with a hardworking and tranquil labor force, has produced growth and diversification. Singapore is now embarked on its "second industrial revolution" and hopes to increase the capital and skill intensity of production in all sectors. I came away from Singapore with the thought that it, even more than the other ASEAN nations, represents an enormous market for American trade and provides untold opportunities for U.S. investment.

THE PHILIPPINES

The delegation visited Manila for approximately a day and a half during which it conferred with the President of the Philippines, the Prime Minister and Finance Minister, the Foreign Minister, and met with officers of California-based firms, the directors of the American Chamber of Commerce, officials of the U.S. Embassy, other Philippine Government officials and leaders in the cultural and educational fields. I also met with former Senator Laurel, an opposition leader.

Without the slightest hesitation, I can state that I found United States-Philippine relations to be excellent. The recent visits of Secretary Haig and Vice President Bush underscored the importance the United States places on maintaining our traditionally close and friendly ties with the Philippines. I found no outstanding serious issues between us. In fact, I observed a strong undercurrent of support for U.S. policies and a spirit of friendship for the American people. There is great sense of appreciation for the policies, the firmness and the consistency of the present Administration. There are, however, a few clouds on the horizon. The high economic growth rate of the 1970's in the Philippines has since slowed, hurt by worldwide inflation and oil price hikes. Underemployment and unemployment are serious problems and the gap between rich and poor is great. Population growth, while declining, remains at a high 2.5 percent annual rate. While the two armed insurgencies in the Philippines (the Maoist New People's Army and the Muslim Secessionist Moro Liberation Front) remain troublesome, they do not at the present threaten the stability of the government.

The United States and Japan are the Philippines top trading partners. The Philippine economy is substantially dependent on traditional exports—coconut, sugar, forest products and copper—whose long term earnings prospects are uncertain, but increased effort is being made to create non-export oriented industries. The economy has a mounting balance of payments deficit and depends increasingly on external capital. Official international assistance amounts to about \$1 billion a year, much of it from the World Bank.

In my discussions with President Marcos, he told me that the firm position adopted by the present Administration with respect to Asia and the Pacific had given developing countries in the area, and particularly the Philippines, time to lay the firm foundations for economic development which, he said, was the antidote to subversion. "With the firm position taken by the United States, everything has been stabilized. You have thus bought time for us to develop and now we can move ahead with our economic development under adverse circumstances but still arrange long range plans," the President said to me. He also touched on the 1979

amendment to our military bases agreement saying that the irritation between U.S. military personnel and the Filipino people had been minimized with the assignment of Filipino security men to the perimeters of the bases. He said the utilization of U.S. funds to develop areas adjacent to the military installations were alleviating the conditions of the people nearby so that the people know that something is being done to improve their livelihood.

In my discussions with various Philippine officials, I sought their perception of the threat to Philippine and U.S. interests in South-east Asia. Understandably, it was somewhat different from the threat described in previous stops on my trip. These officials view the Russian consolidation of Indochina as the principal and most immediate threat to their interests at the present time. While commenting that the Chinese would probably pose a threat in 15-20 years, Soviet use of Cam Ranh Bay and Danang, and Soviet fleet activities in the South China Sea are a matter of great concern to Philippine officials. They described to me at some length Soviet "Bear" reconnaissance aircraft violations of Philippine airspace. They also mentioned Soviet fishing activities in the southwest Pacific area and various oceanographic endeavors in the Pacific. Considerable skepticism was also expressed to me about the activities of the Soviet merchant shipping fleet. Senior officials commented that a relationship with China might in some way help to deter Soviet activities but the recently announced U.S. policy of considering a military supply relationship with China was worrisome to ASEAN nations in general. I assured my interlocutors that any developing relationship with China would be pursued in a slow and deliberate manner and would not be at the expense of our friends in ASEAN.

In my conversation with the Prime Minister, I asked him about the status of petroleum exploration. He said he was very encouraged by the Galoc exploration effort in that it is the first indication of a larger reservoir, but it was found on an anticline. He noted, however, that the find was in 1,100 feet of water so that the reserves will have to be large in order to be worth developing.

The Prime Minister went on to note the successful settlement of the tax problem that had inhibited the expansion of U.S. exploration for petroleum in the Philippines and the conclusion of two years of negotiations with the Internal Revenue Service which were required to deal with this issue. He went on to speak briefly of efforts to resolve problems related to the treaty on double taxation and said he was hopeful that we could reach a mutually satisfactory solution.

I asked whether the Prime Minister foresaw any really difficult problems in our economic relations. He replied that protectionism is always a problem and that the desire for equal treatment has a long history in the Philippines. He mentioned the preferential treatment relationship that had existed in the past which has now been overtaken by GATT negotiations and GATT membership for the Philippines. The Prime Minister claimed that in the interim the Philippines had lagged behind with regard to benefits gained through GATT negotiations with the United States by other countries. He referred to the Trade Act of 1974 which would in his view permit the United States to grant Philippines preferential treat-

ment under our generalized preferences provisions. He foresaw discussions with Ambassador Brock on this subject at the end of August.

In response to a question, the Prime Minister said that there were no particular investment problems and that U.S. investment is still much larger than that of any other country in the Philippines. He noted the number of U.S. banks in the country and assured me that there were many opportunities for small industry to invest here. He noted particularly the relationship between California and the Philippines, citing trade, agriculture, the investment in electronic components industries, and the daily commercial flights between the Philippines and California, as well as the role of the Union Oil Company in geothermal development.

I met with Assemblyman—and former Senator—Salvador Laurel and sought his views on the problems the country faces in the months and years ahead. Laurel is an elected member of the national assembly and is a strong believer in expressing his opposition within the system. Having been in the opposition party myself until recently, I expressed the belief that the existence of a viable opposition is a healthy thing. Laurel indicated that the opposition had pursued its purposes through the use of the ballot until recently. This effort had not been successful and the opposition then turned to the boycott in the recent presidential election.

He said if the use of the boycott was not effective, then the only route open to the opposition would be "bullets." I discussed with him the enormous potential of the ASEAN nations for development and prosperity and expressed the opinion that future development could be disrupted by violence which would only provide opportunity for the Communists. We also reviewed my previous discussion with his colleague, Mr. Roxas, during my January 1980 visit to the Philippines. (Mr. Roxas is presently undergoing medical treatment in the United States.) I appreciated having had the opportunity to have Senator Laurel's views and emphasized to him my belief that a moderate opposition is healthy and told him that I hoped such opposition will continue to develop.

I met on two occasions with American business interests in the Philippines: once with California businessmen and once with the American Chamber of Commerce. Overall they expressed pleasure with the improvement of relations between the United States and the Philippines and said that this has been helpful to the business community. The foreign policy of the new Administration is perceived as good and there was some consternation at criticism of the Administration for "not having a foreign policy." The American businessmen and women whom I met made several more specific points:

A number commented that they were pleased with the passage of the new tax bill stating that it will encourage young Americans to come overseas to work and would provide incentive for the expansion of trade and investment.

Many were vociferous in commenting on the need for a revision of the Foreign Corrupt Practices Act, stating that it has driven the small- and medium-size businessman out of the field. Several commented that the smaller businessman cannot afford the risks involved in inadvertently contravening the provisions of the act and

cannot afford the lawyers and accountants required to assure compliance with the act. There seemed to be considerable support for the Chafee amendment to the Foreign Corrupt Practices Act.

A number of business representatives talked of the need to convince young Americans of the advantages of working overseas. With the decline of foreign language training in the United States and the lack of financial incentive to come overseas, Americans are becoming a less mobile society, not only turning down the offer of moves (and promotions) within the United States but also declining to serve overseas. This attitude is exacerbated by the need of many young people to hold second jobs. It is also complicated by the high cost of housing in the United States, since selling a house in order to move causes the owner to lose the equity which he has built up. All of these factors, in the view of many business representatives, have contributed to a less competitive position for American business overseas.

As elsewhere on the trip, business representatives spoke enthusiastically of Charles Robinson's proposal for a regional office incorporating U.S. financial institutions. The preference of businessmen in Manila is, obviously, to have such an office located there. They commented however that placing it anywhere in Southeast Asia would be a step in the right direction.

In my discussions with businessmen and with Embassy officers, I learned that Philippine imports from California amounted to \$625.7 million in 1980 or 40 percent of all imports from the United States for that year. About 80 percent of California exports came from the San Francisco area. Electric machinery and equipment was the largest California export, accounting for \$207.9 million or 33 percent of the total from California. Machinery and mechanical equipment exports approximated \$146.2 million or 23.4 percent of all California exports. This was followed by chemicals at \$83.4 million and transport equipment of all sorts at \$69.6 million. Philippine exports to California in 1980 were valued at \$519.2 million or 34.8 percent of the total trade with the United States. Approximately two-thirds of this passed through the San Francisco area. The three largest Philippine exports were coconut oil, transistors and electronic crystal components, and wearing apparel.

My impression following my brief visit to the Philippines is that, though the Philippines is moving the slowest of the five ASEAN nations, there are nevertheless many investment and trade opportunities, especially for small- and medium-sized companies. The Philippines, hampered by a lack of oil and suffering from the high prices it is forced to pay for its imported oil, will require an extra effort by the United States Government and the U.S. business community in order to assure a satisfactory level of economic development. Without such development the political stability of the country could be threatened. Something more than "neutrality" on the part of the U.S. Government toward trade, investment and development is needed. A positive attitude—and perhaps some "nurturing" at home for U.S. businessmen abroad—will contribute significantly toward economic progress and development in the Philippines, as well as in other Southeast Asian nations.

ACKNOWLEDGEMENTS

I would like to acknowledge particularly my debt to the Department of State, the six American Embassies and the Consulate General which I visited during this fact-finding mission. The preliminary information provided by the State Department, as well as the advance arrangements which the Bureau of Congressional Relations and the East Asia Bureau made, were invaluable to the entire delegation. The success of the mission was in large measure the result of these arrangements.

I would like to pay tribute to the Foreign Service Officers whom I encountered during the trip and Deputy Chiefs of Mission in particular. This group of dedicated, competent professionals, with vast knowledge and expertise in the countries of Southeast Asia, provided invaluable assistance to the delegation. We have an outstanding group of dedicated and competent officers of which the American people can be justifiably proud.

I would also like to mention as being particularly useful in the preparation of the trip a recent report by the U.S. General Accounting Office entitled "The Growing Role of Trade as a Development Assistance Mechanism." This report, published while the trip was in progress, was invaluable in the preparation of this report. In addition the delegation found useful "A Business Guide to the Association of Southeast Asian Nations," published by the International Trade Administration of the U.S. Department of Commerce. Similarly the "Foreign Economic Trends and Their Implications for the United States," prepared by the American Embassy in Singapore for the Department of Commerce was also useful. The delegation also found helpful information provided by the United States Trade and Development Program of the U.S. International Development Cooperation Agency, representing a wide spectrum of participating agencies within the U.S. Government, all concerned with trade and development.

ANNEXES

ANNEX 1

COMPOSITION OF DELEGATION AND ITINERARY

Senator S. I. Hayakawa, Chairman, Subcommittee on East Asian and Pacific Affairs, Committee on Foreign Relations.

Mrs. Margedant P. Hayakawa (travelling at her own expense).

Mr. Broadus Bailey, Jr., Professional Staff Member, Committee on Foreign Relations.

Mrs. Patricia F. White, Administrative Assistant to Senator Hayakawa.

Mr. William H. Itoh, Bureau of Congressional Relations, Department of State.

Depart San Francisco, August 5, 1981; Arrive Hong Kong, August 6, 1981; Depart Hong Kong, August 7, 1981; Arrive Bangkok, August 7, 1981; Depart Bangkok, August 9, 1981; Arrive Vientiane, August 9, 1981; Depart Vientiane, August 10, 1981; Arrive Bangkok, August 10, 1981; Depart Bangkok, August 11, 1981; Arrive Jakarta, August 11, 1981; Depart Jakarta, August 13, 1981; Arrive Jogjakarta, August 13, 1981; Depart Jogjakarta, August 13, 1981; Arrive Jakarta, August 13, 1981; Depart Jakarta, August 14, 1981; Arrive Singapore, August 14, 1981; Depart Singapore, August 14, 1981; Arrive Kuala Lumpur, August 14, 1981; Depart Kuala Lumpur, August 16, 1981; Arrive Singapore, August 16, 1981; Depart Singapore, August 18, 1981; Arrive Manila, August 18, 1981; Depart Manila, August 20, 1981; Arrive San Francisco, August 20, 1981.

ANNEX 2

VIETNAMESE REFUGEE SITUATION IN HONG KONG, AUGUST 5, 1981

1. VIETNAMESE REFUGEE ARRIVALS IN HONG KONG

Of the refugees who have arrived in Hong Kong and are eligible for resettlement, which excludes those previously resettled in China, the majority have arrived in small boats from north Vietnam and the central part of south Vietnam (Danang, Hue, etc.) stopping along the coast of China along the way. The remainder have all come from southern Vietnam and been rescued at sea.

The current arrivals generally differ in a number of characteristics, such as ethnic and geographic origin, age, family size, ties to the United States, and reasons for leaving, from those who arrived from 1975 to 1979 before the imposition of the SRV moratorium.

Ethnic and Geographic Origins. The HKG reports that from 1975 to July, 1979, 73 percent of all arrivals were ethnic Chinese. Although the SRV imposed its moratorium in July, 1979, this did not significantly affect arrivals in Hong Kong for several months since it usually took that long for those who left Vietnam in small boats to arrive here after stopping along the coast of China. In fact, during the first nine months of 1979, the proportion of Chinese among all arrivals in Hong Kong was even higher with 55 percent northern Chinese and 26 percent southern Chinese, while only 14 percent were southern Vietnamese and 5 percent northern Vietnamese. By contrast, of the 12,000 arrivals from October, 1979, through June, 1981, only two percent were northern Chinese and one percent southern Chinese, while 17 percent were northern Vietnamese and 80 percent southern Vietnamese.

These proportions are roughly the same as those we have provided in a separate table based on random samples of 300 INS approved refugees per month in August, 1979, and June, 1981. Since it takes some time from the date of arrival until a refugee is processed by the HKG, UNHCR, and JVR and presented to INS, almost all of the refugees in the August, 1979, sample arrived in April or May of that year, although a few arrived as early as September, 1978, or as late as July 5, 1979; all

had therefore left Vietnam before the moratorium. Similarly, almost all the refugees in the June, 1981, sample arrived in March through May of this year, but a few arrived as early as April, 1979.

Of the August, 1979, INS approvals, 68 percent were northern and 27 percent southern Chinese, while five percent were southern Vietnamese, compared to the HKG figures for all arrivals from January to September, 1979, of 55, 26, and 14 percent respectively (plus five percent northern Vietnamese).

While the rank orders are the same, our proportion of acceptances for Chinese is higher and for Vietnamese lower than the HKG figures for arrivals for several reasons. While we were then taking mostly refugees with some ties to the U.S. (categories 1 through 4D), those we took without such ties in the August, 1979, sample were all Chinese, with one exception. This resulted from the fact that, in accordance with our criteria, we informed the UNHCR that we were mostly interested in taking category 1 and 2 refugees and that those in lower categories should if possible be submitted to third countries first. As a result, third countries, particularly Canada, took a relatively high proportion of southern Vietnamese, as well as southern Chinese, who had skills which would assist in their resettlement and who would have fallen in our lower categories. Conversely, third countries took relatively few northern Chinese who did not have such skills. Since third countries had in effect rejected most of the northern Chinese, the UNHCR submitted them to us as a relatively high proportion of our caseload. In fact, then as now, whatever caseload the UNHCR submitted to us was processed for presentation to INS, except for those we sent back to the UNHCR to submit to third countries first because of ties with those countries. Finally, our policy at the time was not to take northern Vietnamese without ties to the United States, but the northern Vietnamese who arrived in 1979 generally had no such ties.

By June, 1981, ethnic Chinese had dropped to seven percent of INS approvals, while northern Vietnamese rose to eight percent and southern Vietnamese to 84 percent. This compares with the HKG figures for arrivals from October, 1979 to June, 1981, of 3, 17 and 80 percent respectively. Again, the rank orders are the same, and the differences in the proportions less than between the 1979 sample and the HKG statistics for arrivals. In fact, of the few Chinese approved in 1981, almost all had arrived in 1979. It often took that long for the UNHCR to submit them to us, particularly if they were in low categories, as most of them were, and were first submitted to third countries which often took considerable time to reject them before we would consider them.

Age and Family Size. The average age in the August, 1979, sample is almost 21, compared to just over 19 in the June, 1981, sample. This is largely because 13 percent of the 1979 sample, which was almost entirely Chinese, was over 40 years old, compared to only four percent of the 1981 sample, which was almost entirely south Vietnamese. Exactly 20 percent of those approved in the 1979 sample were 21 to 30 years old, compared to 30 percent in the 1981 sample. Another 23 percent in 1979 were 11 to 20, compared to 32 percent in 1981.

The 1979 sample of 300 persons covers only 74 cases or families, of which 40 contained four or more people and only 12 were single individuals. The average case size was 4.1. The 1981 sample, again of 300 people, covers 140 cases, of which only 21 had four or more persons, while there were 73 single individuals. The average case size dropped to 2.1.

In other words, in 1979 the Chinese tended to pay their way out in large family units with relatively more children and persons over 40. In 1981, however, the Vietnamese tended to escape clandestinely either alone or with only one or two relatives, and there were few persons over 40 in this group.

Ties to the United States. The proportion of persons with some tie to the United States (categories 1 through 4D) was almost halved from about 67 percent in 1979 to about 35 percent in 1981. The proportion in category 1, however, rose from 7 to 12 percent, probably because by 1981 more close relatives of the refugees had preceded them to the United States. The proportion in category 3 (former employees of U.S. firms, etc., former GVN personnel, and persons trained in the United States, etc.) climbed from 1 percent to 12 percent, which could be expected as our approvals shifted from Chinese, predominantly northerners, to southern Vietnamese.

Reasons for Leaving. The principal applicants in the 67 Chinese cases approved by INS in the 1979 sample all told the JVR that they left Vietnam because the SRV was persecuting Chinese. The few Chinese approved in 1981 similarly explained that they had been persecuted as a group and forced to leave.

The south Vietnamese in 1981 gave a number of reasons for leaving, often more than one per case, so the total number of reasons is greater than the number of cases. Of the 126 cases (252 persons), the principal applicants in 54 (118) said they had escaped because a family member had been persecuted by the government

because he worked for the former government or because a relative had escaped or because they themselves had previously tried to escape or, in one case, because of prior service under the French. In 49 cases (103), the applicants said they had no freedom to travel, vote, read, speak, attend Catholic or Buddhist services, or work as they wished, or they gave a catchall reason of disliking communism and searching for freedom and a better life. In 38 cases (51) a family member had escaped from the army or left to avoid being drafted. In 24 cases (55) a family member had been sent or was ordered to go to a New Economic Zone; in 18 cases (29) a family member was not allowed to continue his education; and in 15 cases (31) a family member had been sent to a re-education camp.

The largest number, 68 (140), said they had left because of hardships such as not being allowed to work; low pay, high taxes, and not enough income to live on; being forced to join a cooperative or do hard labor; or confiscation of property. In 14 cases (40), they complained about lack of food, clothing, or medicines. Finally, the applicants in 19 cases (29) said they left to join relatives or because their parents sent them out.

It is difficult to draw conclusions from the above which appears to be a representative sample of the reasons for the current outflow. On the one hand, the refugees may be sharp enough to respond in a way they think will get them approved to go to the United States. On the other hand, they may honestly be giving the reasons in their own minds for leaving, but in some cases, e.g., in saying that they are searching for freedom, they may not be able to enunciate their reasons any more specifically.

All of them, however, except the few who left because their parents told them to, suffered some form of persecution or deprivation. A few more may have suffered economic hardship than the number which was oppressed in a purely political sense, but not allowing people to work (generally because of their association with the previous government) or confiscating their property is as much a political measure as an economic one, if not more so. Conversely, it may seem as if the punishment for draft dodging or trying to escape should not be considered political persecution. But in fact the families of those guilty of these actions, just like the families of former officials or soldiers, have been treated as outcasts and deprived of jobs, education, and rations and often ordered to go to the New Economic Zones.

Reasons for Being Unwilling to Return. This question was not asked in 1979, since there was little or no thought given then to the possibility of returning the refugees. If the question had been asked, however, surely 100 percent of the Chinese would have responded that they would be persecuted if they went back, just as they had been before they left.

In 1981, the few Chinese in the sample approved by INS gave just that response. Of the 126 south Vietnamese cases (252 persons), 74 applicants (161) said that if they returned they would be jailed or sent to a re-education camp for anywhere from several years to life. Significantly, 30 (79) feared that they would be killed; 10 (15) that they would be sent to an N.E.Z., and 12 (20) that they would be persecuted in an unspecified way for escaping.

There were also 11 cases (17) in which the applicants said that they would not go back because they disliked communism, eight (15) whose parents didn't want them to go back or who wanted to live with their family members who had already escaped, seven (16) who said they had no future in Vietnam, and five (nine) who said it had been difficult to escape and therefore they couldn't or wouldn't go back.

Here too the number of reasons is greater than the number of cases because some gave more than one. It is not clear whether those who said they would be killed if they returned actually believed this or simply said so because they thought it would impress their audience. No one in the sample expressed a desire to return, except for a few who said they would go back to fight the communists or if the communists were overthrown. It is doubtful that any would go back voluntarily because of fear that they would at least be put in jail.

Finally, even if they were willing to return, the question is whether Vietnam would admit them. With its food shortages and objective of building a socialist society, it is almost certain that the SRV would not allow any to return who had left voluntarily and been exposed to capitalism. It would be unable to trust them since they might not only lapse again themselves but also infect their fellows.

2. PROSPECTS FOR FUTURE REFUGEE FLOWS

The HKG anticipates that many more refugees will arrive than the 6,800 who did in 1980. Through July, over 6,000 had already arrived and August arrivals may reach 1,500, as they did last year, because of the favorable sailing weather for small boats from Vietnam to Hong Kong. The HKG estimates that arrivals in 1982 will be

about the same or even more than those this year, if the present factors contributing to the outflow do not change.

Arrivals are expected to continue to be mainly central Vietnamese, with northern Vietnamese second or third, depending on how many southern Vietnamese are brought in by rescue ships.

It is difficult, however, to project refugee flows even for the remainder of this year, much less for later ones, as we have seen in the past. Future outflows depend on both the push and pull factors.

Partly in an effort to reduce the pull factor, the HKG on June 15 tightened up its asylum policy. Until then, all the new arrivals had been allowed to work, except for refugees rescued at sea who had to remain in closed camps. Since June 15, however, all new arrivals have been put initially in closed camps. Those rescued at sea and accepted by third countries remain there until they depart for resettlement, which the HKG now requires that they do within three months. Those accepted by the United States, either from small boats or U.S. ships or, in the case of high category refugees, from foreign ships, remain in a closed camp until they are moved to the IESL camp; in any case they are not allowed to work. Only those from small boats not in the above two groups are moved to open camps and allowed to work, once it is clear that the United States will not accept them.

The HKG hopes that, when word of its policy of not allowing most new arrivals to work gets back to Vietnam, it will deter refugees from coming here in small boats. But the new policy also reduces the time spent in processing those accepted by the United States. They will move into the IESL camp and leave on the average about six months after arriving here. When word of this gets back to Vietnam, it is likely to induce refugees to come to Hong Kong. Thus the new HKG policy is unlikely to have much, if any, of a net deterrent effect on future flows here.

As for the pull effect of the U.S. resettlement program in Hong Kong, as well as those of third countries, refugee arrivals here are not likely to be reduced significantly as long as we take some number from here, whether at the current maximum of 1,500 a month or at some lower rate. Even if we reduce our intake, all refugees heading here will hope that they will be the lucky ones chosen by the United States. And if we announce that we will take only high category refugees with ties to the United States, it will only encourage those without such ties to fabricate them.

If the United States stops taking any refugees from Hong Kong, fewer will be pulled out, but at least some are still likely to leave. They will do so either because they suffer persecution or find conditions in Vietnam intolerable or because they will still hope that the United States, or other countries, will find some way to resettle them, once they arrive, or that they can remain in Hong Kong, even if they cannot work, which many are likely to prefer rather than to continue living in Vietnam.

3. U.S. PROGRAM IN HONG KONG

Out of the global authorization of 168,000 Indochinese refugee admissions in fiscal year 1981, the United States has informally indicated to the Hong Kong Government (HKG) that we will take from here up to 18,000 refugees, i.e. 1,500 a month, provided that they are eligible for admission to the United States. In fact, from October, 1980, through July, 1981, we moved a monthly average of 1,365 from Hong Kong.

The reason for moving fewer refugees than the maximum of 1,500 is that there have not been enough refugees in Hong Kong who were found to be eligible for the U.S. program.

Following are statistics on the 15,000 refugees in Hong Kong on July 31, excluding those previously resettled in China, broken down to show their eligibility for the U.S. program.

U.S. Pipeline	5,400
INS approved	4,400
With JVR, not yet INS approved of whom 900 expected to be approved; remainder will be returned to UNHCR or rejected by INS.....	1,000
Not eligible for U.S. program	2,800
Accepted by third countries	1,700

Rejected by INS for refusing to go to RPC.....	600
Rejected by INS for other reasons.....	500

Possibly eligible for United States of whom an estimated 2,000 may eventually be INS approved	6,800
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Cases either not submitted to us by UNHCR or returned by us to UNHCR because of ties with third country offers, criminal records, et cetera	3,000
No show for INS interviews	500
Cases submitted to but not yet accepted by third countries.....	1,100
Unidentified	2,200

The UNHCR is trying to identify the status of these 2,200 refugees; they apparently include some persons who have already moved to the United States, some cases we have returned to the UNHCR for submission to other countries, etc., and a few who have been rejected by INS. The problem is that the UNHCR statistics are not up to date since it takes several weeks to enter into the UNHCR computer data on departures to the United States, cases returned by the JVR, and INS rejections, and then to retrieve the information.

We have been trying since last year to get the UNHCR to submit to us all the cases which might be eligible and identify those which do not appear to be. The UNHCR has done a good job in submitting new cases to us but has not yet been able to identify clearly whether all the remaining old cases appear eligible for the U.S. program or not.

In May the HKG enacted legislation permitting it to detain and withdraw the work permit of any refugee who refuses a resettlement offer or does not comply with procedures required for resettlement, e.g., no shows. This should enable the UNHCR working with the HKG to track down all the old arrivals who are working and even living outside the camps and determine clearly whether or not their cases can be submitted to the United States or to third countries.

According to the UNHCR, as of June 30 about 23 percent of the 15,000 refugees in Hong Kong had been here six months or less, 16 percent from seven to twelve months, only three percent from 13 to 18 months, 34 percent from 19 to 24 months, and 23 percent over two years. The 9,000 refugees who have been here over 19 months form the hard core of difficult cases to resettle; many of them have rejected a resettlement offer and are therefore ineligible for the U.S. program.

We are willing to reconsider any refugees who had valid reasons for not appearing twice for scheduled JVR interviews, which otherwise is tantamount to a rejection of a U.S. resettlement offer. Otherwise, under our criteria, we will not consider refugees who have more or closer relatives in third countries with resettlement programs than they have in the United States, unless the third country rejects them, and even then not those with parents, spouses, or children in third countries. Nor will we consider refugees who do not have close relatives in the United States or who were not former U.S. Government employees, if they turn down third country resettlement offers. Moreover, thus far we have refused to reconsider those who in 1980 signed a form in which they both refused to go to the RPC and stated that they understood that such a refusal would make them henceforth ineligible for the U.S. refugee program.

The HKG has requested that we change our policy on RPC refusals (less than 600). The majority of these persons were among those selected for movement to the Bataan RPC when it was first opened, at a time when the refugees had considerable apprehension both about conditions in the Center and about the possibility that they might have to wait there as long as three years before being resettled in the United States, as is still the case.

At some later point, when the refugee population in Hong Kong has been substantially reduced, we might reconsider our policy on RPC refusals. We believe it would be unwise to do so at this time, however, since it would undermine our credibility with other refugees who refuse third country offers in the hope that if they hold out long enough they will eventually be accepted by the United States. Moreover, it would undercut the new HKG policy of detaining persons who refuse resettlement offers which was designed to induce them and others to accept the first offer they receive. If we now take those who previously refused to go to the RPC, the others would believe that they too could get a second chance if they refused the first offer they get.

4. IESL/CO

The HKG spent over US\$80,000 to convert and equip the Intensive English as a Second Language/Cultural Orientation (IESL/CO) classrooms at the Argyle 4 camp. They accommodate 1,800 students out of a maximum camp population of 4,500. At present, while there are about 1,800 students in the classes, the camp has less than 3,100 refugees in it. Since the IESL/CO classes began in December, we have tried to move 1,500 refugees a month from Hong Kong into the camp but have actually moved in a monthly average of only about 1,210, not including Macau cases which bring the monthly average up to 1,275. Again, this is because there have not been enough refugees in Hong Kong who were found to be eligible for the U.S. program.

The prospects are the same. There were fewer than 1,000 arrivals in Hong Kong in June, and fewer than 800 persons from Hong Kong, including earlier arrivals, will enter the IESL/CO camp for the September class. (It normally takes a minimum of two months from the date a refugee arrives until he enters the IESL camp; thus late June arrivals would enter in the beginning of September.) We have also requested the HKG to authorize the entry of about 200 refugees from Macau into the IESL camp for the September class, to bring the total up to about 1,000.

Similarly, fewer than 1,000 INS approved refugees are expected to enter the IESL/CO camp in October and each later month. Arrivals rose to about 1,400 in July and may climb to 1,500 in August, which have historically been the peak months because of favorable sailing weather from Vietnam to Hong Kong. But about 40 percent of these arrivals will probably be ineligible for the U.S. program because they have ties with other countries or have been guaranteed acceptance by them. Before refugees rescued at sea can be landed in Hong Kong, the country of ownership or registry of the rescue ship has to guarantee to accept all those not accepted by other countries. In the case of refugees rescued by foreign ships, the United States will accept only those with close relatives in the United States (Category 1A), unaccompanied minors (Category 1B and 4B), and former U.S. Government employees (Category 2).

5. BRITISH QUOTA

The U.K. announced in July, 1979, at the time of the Geneva Conference that it would admit 11,000 Indochinese refugees from Hong Kong. The U.K. apparently set no time limit to fulfill its quota.

The HKG has informed us that the U.K. has now taken all but a few hundred of this quota. The HKG has repeatedly pressed the U.K. not only to fulfill its quota but to set a new one. For domestic reasons, the U.K. has repeatedly demurred.

The Australians and Canadians have indicated that their own resettlement programs from Hong Kong are being adversely affected by the lack of leadership of the U.K., both as leader of the Commonwealth and as the power which governs Hong Kong. The United States has also pressed the U.K. both here and in London to take additional refugees.

Hong Kong itself has resettled less than 350 boat refugees since 1975. It has, however, given legal resident status to about 9,000 Indochinese stranded in Hong Kong in 1975 at the time of the communist takeover plus about 5,000 flown in from Vietnam under an orderly departure program. Moreover, Hong Kong has accepted several hundred thousand Chinese who entered from China over a few years ending in 1980.

6. INDOCHINESE REFUGEES FROM CHINA

From 1978 through June, 1981, about 13,000 Vietnamese whom the HKG believed had previously been resettled in China arrived in Hong Kong. The HKG has succeeded in getting the PRC to accept 10,000. This will leave Hong Kong with about 3,000 whom it is still negotiating with the PRC to take back.

About 3,000 of these Vietnamese from China arrived in Hong Kong from April through June this year. This was a heavy burden for the HKG since it, rather than the UNHCR, supports the ex-China cases. But Macau has an even heavier burden, with over 4,000 Vietnamese from China who arrived there in the last three months, not counting those who sailed on to Hong Kong and are counted in the Hong Kong figures plus about 3,000 who returned to China on their own.

While the HKG and PRC have worked out procedures since 1978 to move many of these cases back to China, Macau has not done so. Both the British and Portuguese, however, pressed the Chinese hard to stop the recent outflow and it appears that the PRC has responded; only 211 of the total boat arrivals in Hong Kong in July have been identified so far as being ex-China cases.

ANNEX 3

BRIEFING PAPER: DRUG ENFORCEMENT ADMINISTRATION—HONG KONG

As would be expected, drug trafficking into, and through, Hong Kong has increased dramatically during this calendar year. This can be directly attributed to the bumper harvest of opium in the Golden Triangle area of Burma, Laos, and Thailand. This year's crop has been estimated at approximately 600 tons. Production in the previous two drought-ridden years was about 200 tons per year. From these figures you can easily imagine the increase in trafficking activity concerning Hong Kong, one of Thailand's most accessible markets.

Seizures during the first seven months of this year have reflected the increased supply. Thus far this year Royal Hong Kong Customs and Excise and the Royal Hong Kong Police Narcotics Bureau have seized approximately 100 kgs. of heroin base and heroin No. 3. This compares with 115 kgs. of heroin base and heroin No. 3 seized during the entire year of 1980. Additionally, the price of heroin in Hong Kong continues to drop, indicating that available supplies are growing, even considering the higher seizure figures.

For those of you not familiar with the terms heroin base and heroin No. 3 let me explain. Heroin base is now virtually the only form in which opiates are smuggled into the Colony. Heroin base, or heroin that has not yet been converted into heroin No. 3 or No. 4, has completely replaced morphine base as the starting point for heroin manufacture in Hong Kong. The reason for this is that conversion of heroin base to heroin No. 3 is relatively fast and simple requiring easily obtained chemicals while the process from morphine base to heroin No. 3 is time consuming, produces an extremely noxious order, and requires the use of acetic anhydride, which is very difficult to obtain in Hong Kong.

Heroin No. 3, or smoking heroin, is by far the drug of choice in Hong Kong. There is virtually no demand for heroin No. 4, or injectable heroin, which is prevalent in the United States.

The authorities in Hong Kong have prided themselves in recent years over having virtually ended the export of heroin from Hong Kong. At one time Hong Kong was a major exporter of heroin but enforcement pressure has virtually eliminated that particular problem. With the current influx of heroin base, however, there is fear that Hong Kong may once again become an exporter.

The key roles now played by Hong Kong is the field of narcotics trafficking is as a financial and organizational center. As many of you are probably aware, Hong Kong is a free currency market meaning that any amount of cash or gold can be brought into, or taken from Hong Kong without restriction. This is, of course, the ideal situation for international organizations with huge amounts of illegal funds. Bank security regulations in Hong Kong favor the individual wishing to hide fortunes in ill-gotten gains.

Hong Kong serves as the Center of the so-called "Chinese underground banking system." This is a method whereby money is transferred from one country to another using gold shops or money lenders as a conduit. This method, time-tested and virtually as safe as a bank transfer, leaves no trail of paperwork which might later cause problems for the trafficker. For example, 250,000 U.S. dollars could be deposited in Bangkok, and retrieved in Hong Kong hours later with nothing but a small slip of paper bearing numbers.

Efforts to stimulate Southeast Asia countries to engage in financial investigation has proven a slow moving and frustrating experience. However, we are hopeful of making progress in this field. The Hong Kong Government has emerged as a leader of Southeast Asia Governments in the effort to reach traffickers through financial investigations.

Hong Kong also is a base of operations for a number of trafficking organizations. Many of these organizations respect Hong Kong's enforcement units to the extent that they do not engage in drug trafficking within Hong Kong. Their operations are planned here, personnel are recruited here, but the crime takes place elsewhere. The normal situation would see couriers recruited here travelling to other Asian cities to pick up heroin, then proceeding to North America or Western Europe where the heroin is delivered with the proceeds then being transmitted back to Hong Kong.

In summation, the increase in heroin availability within Hong Kong simply mirrors problems to come for the United States. Major Southeast Asian heroin trafficking organizations that have been relatively dormant over the past several years are once again working to re-establish themselves in the North American market.

ANNEX 4

A GROWING MARKET FOR U.S. FOODS AND AGRICULTURAL COMMODITIES

Hong Kong is one of the fastest growing markets in the world for American foods and farm commodities. The value of U.S. agricultural product exports to Hong Kong has more than doubled from U.S. \$206 million in 1976 to \$436 million in 1980. This phenomenal growth reflects both increases in the per unit value as well as quantities of individual U.S. export items.

Hong Kong is currently ranked 18th as a world market for American farm products. More significantly, on a per capita basis, Hong Kong ranks second only to the Netherlands as a market for U.S. farm products, with each of Hong Kong's estimated 5.6 million people consuming U.S. \$78 worth of U.S. farm products per person. Hong Kong is also the leading overseas market for shell eggs, oranges, apples, table grapes, melons, prepared animal feeds, ginseng, celery and lettuce.

Cotton has spearheaded the growth in U.S. exports to Hong Kong, increasing from U.S. \$52 million in 1976 (186,000 bales) to \$151 million in 1980 (490,000 bales). U.S. cotton now accounts for over one-half of all cotton imported for Hong Kong's textile industry.

Although U.S. cotton sales have overtaken oranges and replaced them as the number one money-earner, orange sales have also shown significant gains from \$29 million in 1976 to \$50 million in 1980 reflecting increases in quantity and value and the Hong Kong consumer preference for high quality citrus products. Hong Kong's per capita consumption of oranges is currently about 60 pounds per year, the highest in the world. About 70 percent of these came from U.S. groves in 1980.

A number of other U.S. agricultural items including poultry, prepared animal feeds, shell eggs, table grapes, apples, melons and lettuce to name a few, have shown steady if not spectacular growth since the early 1970's.

The trend of increasing sales of U.S. farm products to Hong Kong is expected to continue over the next few years. Per capita incomes in Hong Kong are the second highest in Asia next to Japan. While the Hong Kong food market is segmented between the largely western oriented institutional trade (including hotel restaurants and modern style supermarkets) and the traditional Chinese market, there is a growing awareness all over in the quality and availability of American foods. Posh restaurants and the leading hotels insist on serving such U.S. foods as beef, chicken, turkey, eggs and a wide assortment of fruits and vegetables because of their unsurpassed uniform quality and reliability of supply. This is significant because the number of hotel rooms is expected to increase by 20 percent over the next few years and this is readily evident by Hong Kong's changing skyline.

There is also potential for growth in the sale of U.S. grocery line items as the number of new retail food outlets has increased significantly in the past few years and this trend is expected to continue. Because of a combination of traditional ties and advantageous freight rates, most of Hong Kong's grocers had looked to Australia, New Zealand and to some extent Europe for suppliers. In recent years, there has been some shift in buying habits and American items are now readily found on the shelves.

The Chinese market (i.e., 5.4 million out of 5.6 million people) is changing rapidly in Hong Kong, especially among the young as they adopt western lifestyles, including eating habits. This, coupled with the higher per capita incomes, is starting a trend towards consumption of higher quality foods, meats, sandwiches and convenience foods. More and more families are acquiring refrigerators which means more frozen and prepared foods are being consumed, although the preference for freshness is still very much evident in the Chinese consumers buying habits.

A rather new phenomena is the success of many new fast food outlets. These shops have a special appeal to the younger Chinese consumer. This trend is especially significant for the future as one-half of Hong Kong's population is under 25 years of age.

TOP 20 U.S. AGRICULTURAL EXPORTS TO HONG KONG, ANNUALLY 1976-80¹

(Quantity in thousands of units)

Commodity #	FAS estimates (percent)	1976	1977	1978	1979	1980
Cotton (running bales).....	6	186	386	550	441	490
Oranges (lbs).....	90	223,673	209,075	196,516	158,947	243,707
Ginseng (lbs).....	0	299	337	341	288	551

TOP 20 U.S. AGRICULTURAL EXPORTS TO HONG KONG, ANNUALLY 1976-80¹—Continued

[Quantity in thousands of units]

Commodity ²	FAS estimates (percent)	1976	1977	1978	1979	1980
Poultry, frozen (lbs)	5	42,699	45,558	45,123	43,988	54,330
Prepared animal feed (lbs)	10	104,558	106,888	121,434	107,108	112,695
Wheat (mt)		102	93	93	97	90
Tobacco (lbs)	0	2,750	2,987	2,768	4,594	5,340
Apples (lbs)	-5	28,229	28,470	25,371	34,555	38,427
Beer and ale (gallons)		993	1,690	2,722	3,394	7,117
Grapes (lbs)	70	12,648	13,569	12,425	16,415	17,557
Hides, Cattle (no.)		245	208	111	126	220
Lettuce (lbs)	90	11,468	12,533	13,862	19,361	22,651
Beef (lbs)	5	1,296	1,243	1,281	1,303	1,651
Shell eggs (dozen)	10	4,532	13,967	10,533	6,966	6,960
Lemons (lbs)	75	7,312	8,783	8,995	8,452	9,748
Soups (lbs)		4,233	6,638	5,849	6,748	6,171
Melons (lbs)	75	5,108	9,546	12,712	15,287	11,716
Candy, excluding cocoa (lbs)		547	628	875	829	1,151
Other citrus (lbs)	75			30,749	10,969	4,498
Corn, canned (lbs)		6,221	9,420	8,415	6,748	2,603

¹ Source: U.S. Census data (unadjusted).² Rank in order of value of calendar year 1980 imports.

ANNEX 5

UNITED STATES-THAI TRADE AND INVESTMENT RELATIONS

Trade and investment relations between the United States and Thailand are excellent and there are no major problems, although specific Thai policies and excessively bureaucratic procedures create irritants for U.S. business.

TRADE

The United States is Thailand's second most important trading partner, and our share of the market has been well maintained. We enjoy a healthy favorable balance of trade with Thailand. Since 1975 trade has developed as follows:

[Millions of dollars]

	U.S. imports from Thailand	U.S. exports to Thailand	U.S. trade surplus	U.S. share of total Thai imports
1975	192.63	421.97	229.34	14
1976	242.58	467.09	224.51	13
1977	297.75	475.54	177.79	12
1978	338.82	724.17	385.35	14
1979	591.11	1,111.04	519.93	16
1980	824.70	1,567.29	742.59	13

In 1980 the principal U.S. imports from and exports to Thailand were as follows:

Imports (millions of dollars)

Tin	212.40
Metallic ores—slag and ash	82.61
Textiles	82.39
Integrated circuits	78.91
Rubber and rubber synthetic	53.73
Jewelry	44.44
Canned pineapple	35.62

Exports (millions of dollars)

Electrical machinery.....	257.52
Aircrafts and parts.....	247.00
Machinery, mechanical appliances.....	110.63
Cotton.....	88.24
Plastic.....	63.51
Iron and steel.....	54.11
Tobacco.....	49.14

NOTE.—Conversion rate—20.48 Baht equals \$1.

INVESTMENT

Thailand welcomes foreign investment and has a program of investment incentives to attract it. General policy is that foreign investment should be in the form of joint ventures with local entrepreneurs, but exceptions are possible, particularly where the production is entirely for export.

The United States is a large investor here. Important American firms with subsidiaries in Thailand include Union Oil, Esso, Caltex, Goodyear, Firestone, NS Semi-Conductors, Dole Pineapple, 3-M, Union Oil, Texas-Pacific, Phelps-Dodge, Colgate, Reynolds Aluminum.

While there is no single major problem affecting foreign investors, U.S. investors and potential investors are bothered by such matters as retroactive assessment of taxes or customs duties, problems with visas and work permits, other "red-tape" excuses of the Thai bureaucracy, and uncertain Thai interpretation of existing laws.

The United States and Thailand have a Treaty of Amity and Economic Relations dating from 1966, governing our trade and investment relations.

The total U.S. investment in Thailand is estimated to be more than \$4 million.

SPECIFIC TRADE ISSUES

1. *United States-Thai MTN Bilateral.*—Although the United States and Thailand concluded a bilateral trade agreement in the context of the MTN in 1979, it has not yet taken legal effect. The delay rests with Thailand which has been confused by numerous United States changes in the tariff nomenclature of our concessions and by a unilateral change we made in the agreement. This Thais say that will "soon" request the necessary cabinet level authorization. (We suspect that one reason for the delay may be the relationship of the agreement to Thai accession to GATT. Thailand's move to join GATT has been dragging because it remains uncertain about making the necessary changes in its tax system to meet GATT rules.)

2. *Tin.*—Thailand hopes that the United States will be prepared to join the new Sixth International Tin Agreement, despite the fact that the negotiated agreement has a smaller buffer stock that we would have preferred and relies more on export controls. Thailand also has urged that we discontinue GSA sales of tin from the U.S. strategic stockpile which they see as contributing to price declines and market softness.

3. *Textiles, shoes and other industrial products.*—Thailand has become an important exporter of textiles and other industrial products. The Thais hope that in the current renegotiation of the long-term agreement on textiles we will support an extension that is liberal and allows reasonable growth of trade. (They point out that Thailand is a major importer of U.S. cotton and that the value of their fiber/textile/garment imports from us is greater than their textile exports to the United States.) They urge in general that we resist protectionist pressures.

4. *GSP.*—Thailand appreciates the GSP, takes good advantage of it and would like to see its commodity coverage broadened. They also assume that the program will be extended following expiration of the present legislative authority.

ANNEX 6

THE NARCOTICS PROBLEM IN THAILAND

The so-called Golden Triangle (northern Thailand, eastern Burma and western Laos) produces 400 to 600 tons of opium in a normal year and, along with Mexico and the Golden Crescent in the Middle East, is one of the three major opium-producing areas in the world. In both 1979 and 1980, severe drought hit the entire area causing production to fall to 200 tons or less. The 1981 crop, however, has been estimated at 450 to 700 tons and there is ample opium and heroin surplus for western, including American, addicts. Most of the opium is grown in Burma, much

in areas controlled by the Burmese Communist Party. Some 50 tons were produced in Thailand in 1981, a considerable increase over the past two years but significantly less than the 74 tons estimated in 1978, the last good crop year.

Southeast Asian opium is refined into heroin at refineries just on the Burmese side of the Thai-Burma border in mountainous, heavily forested regions which are beyond the effective control of the central Burmese Government. Some of the heroin supplies Burmese addicts with the rest either brought into Thailand or taken to Burmese ports. The movement of opium and the heroin refineries are controlled primarily by various Burmese insurgent groups claiming to be nationalists fighting for independence from Burman domination. The largest of these groups the Shan United Army (SUA), now controls 75-80 percent of the refinery operations and makes only the slightest pretense at being a nationalist movement rather than a bandit gang. The SUA is headquartered within Thailand a few kilometers from the border and its members freely move across the border.

In Thailand, the narcotics problem is overall: opium is grown here, some refineries are in Thailand (primarily in the insurgent-ridden Malaysian border area), there are many addicts (the Thai Government estimates between 400,000 and 600,000), and most of the Southeast Asian heroin destined for western markets passes through Thailand. In recognition of Thailand's key role in narcotics, the United States Government has had substantial and on-going cooperative programs with the Thai Government.

The U.S. Drug Enforcement Administration and its predecessor agencies have been in Thailand since the mid 1960's and, since the early 1970's, has had a sizable staff stationed in Bangkok, Chiang Mai, and Songkhla. DEA agents work directly with their Thai law enforcement counterparts and a great deal of intelligence, both from local informants and from abroad, is provided by DEA to Thai police. DEA's major interest is attempting to prevent heroin from being transported to the United States. As part of this effort, DEA agents serve as advisors to specialized narcotics law enforcement agencies in Thailand working to improve Thai capabilities and have provided considerable training, both in Thailand and in the United States, to Thai police.

A bilateral agreement on narcotics cooperation was signed by the USG and the RTG in September 1972. To date almost \$17 million has been provided to Thailand under this agreement. From fiscal year 1973 to fiscal year 1978, U.S. assistance to Thailand was limited to Thai police and customs. Since fiscal year 1973, we have provided Thai police agencies some \$7.8 million in equipment and training. Well over half this amount consisted of seven helicopters. During this period, Thai police personnel committed solely to narcotics enforcement have increased from 80 persons to over 300 and about 40 percent of the 140,000 Thai police force has received basic narcotics training. A project with Royal Thai Customs begun in fiscal year 1974 has provided about \$4.7 million in equipment and training with about 30 percent of the total being three 65-foot patrol boats. Thai customs, which previously had no personnel assigned solely to narcotics work now has a special narcotics unit with 84 persons stationed at headquarters and the major airports in Thailand. The overall results have been encouraging. In 1971, less than 6,000 persons were being arrested each year on narcotics violations in Thailand. Over the past three years, an average of 25,000 persons were arrested each year. In the 1960's, Thai agencies were seizing about 6.5 tons of opium equivalent per year. In the 1970's, this average increased to about 8.4 tons.

In fiscal year 1978, we began two new programs in cooperation with the RTG: treatment and crop substitution. The treatment project is a five-year one with the Bangkok Metropolitan Health Department and is designed to provide methadone detoxification out-patient treatment to addicts in the Bangkok area. In its fourth year, 14 clinics are provided this treatment to over 1,300 addicts daily, the program is being used by the Ministry of Public Health to train personnel for similar treatment capabilities in clinics throughout Thailand, and the Bangkok authorities are prepared to take over the entire cost of the program at the end of fiscal year 1982.

Crop substitution was begun in Thailand by the King's Project, later joined by the United Nations Fund for Drug Abuse Control. The initial U.N. project was fairly successful in identifying substitute crops which could be grown in the highlands and provide income equivalent to or better than opium in normal years and in obtaining the hilltribe farmers' acceptance of these crops. Since fiscal year 1978, the effort has been to extend this success throughout the opium-growing hills of northern Thailand. Our funding has been used primarily for surveys, pre-implementation studies and groundwork, and training to enable the Thai Government to prepare plans to encourage other foreign donors to contribute to this long-term, high-cost program. The United States Department of Agriculture has been active in crop substitution

and research work in northern Thailand for about 8 years and currently is providing about \$500,000 per year, half for continued research and the other half for actual substitution efforts. The USAID in 1980 signed agreement for a large rural development project in the Mae Chaem, one of the eight opium-producing watersheds of Thailand. This year, West Germany began a similar rural development project and plans two similar additional projects in the future. Other foreign donors have contributed lesser amounts in commodities and technical assistance.

Considerable progress has been made in Thailand but there is a great deal left to be done. Corruption is endemic in Thailand and the very low governmental salaries contribute to its continuance. Many Thais do not want to stir up their otherwise relatively quiet border area with Burma. Except for narcotics trafficking, the Burmese border is the only one which does not require constant attention and there is little inclination to divert resources and manpower from the tense Cambodian, Laotian, and insurgent-troubled Malaysian borders. Many Thais, particularly in the military, have seen the various Burmese insurgent groups as useful buffers between the Burmese Communist Party controlled areas and Thailand and as preventing direct contact between the BCP and the Thai communist insurgency. The Thai bureaucracy is cumbersome and not immediately responsive to orders from above, especially when orders from Bangkok do not necessarily consider local implementation problems. Thai antinarcotics activities have to compete for scarce resources in a very tight budget. All of these are very real constraints which impinge heavily on the Thai ability to perform more effectively and are recognized by many Thai narcotics officials.

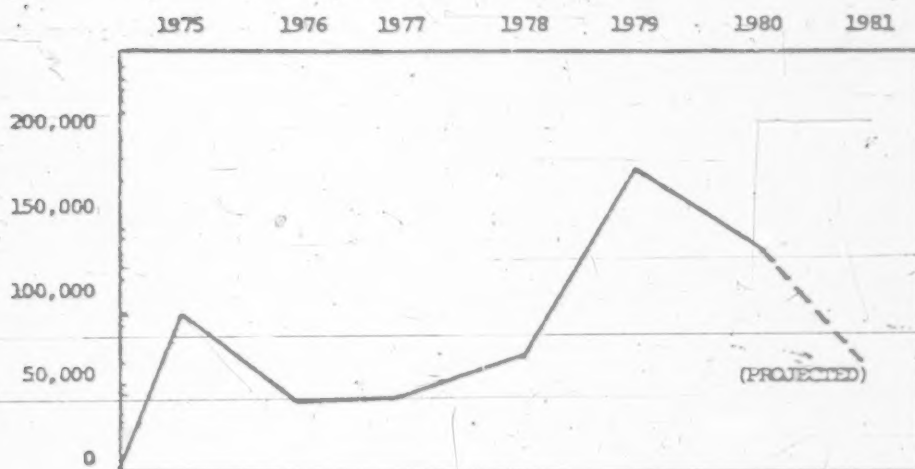
ANNEX 7

REFUGEE SITUATION IN THAILAND, AUGUST 5, 1981

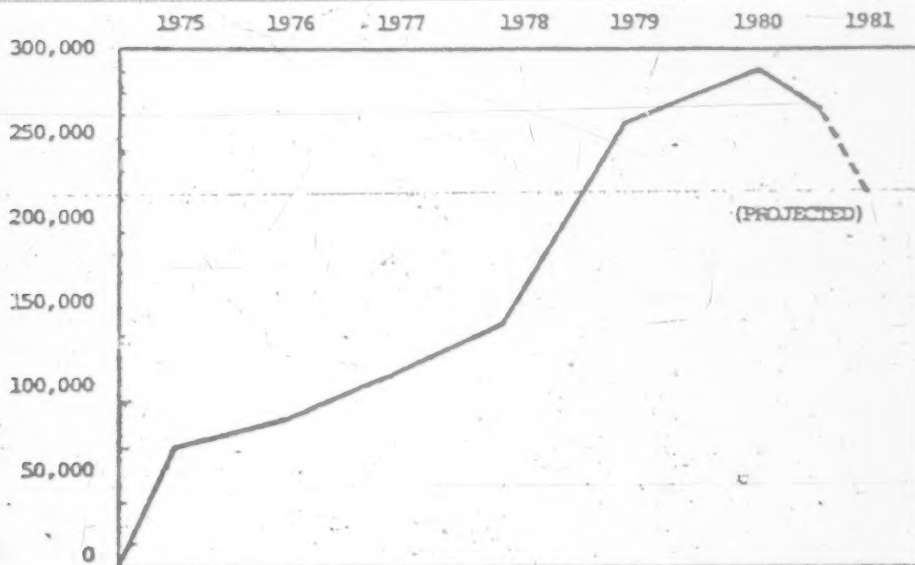
PRESENT TREND

The Indochinese refugee situation in Thailand shows continuing improvement, both in terms of the steadily declining overall camp population and reduced refugee arrivals, particularly from Laos. With present Royal Thai Government, UNHCR and U.S. emphasis on voluntary repatriation of the Khmer refugees, and imposition of deterrents to the influx of Lao refugees, this favorable trend is expected to persist through calendar year 1981.

GRAPH 1 REFUGEE ARRIVALS IN THAILAND - 1975 THROUGH 1981
(TOTAL INDOCHINESE)



GRAPH 2 REFUGEE POPULATION IN THAILAND - 1975 THROUGH 1981
(TOTAL INDOCHINESE)



POPULATION

Of the more than one million Indochinese who fled Vietnam, Laos and Cambodia since 1975, about half have sought asylum in Thailand.

The current refugee population in Thailand is approximately 232,000 persons (compared to about 43,000 Indochinese refugees in other countries of asylum in the region) as follows:

REFUGEE POPULATION IN THAILAND

(As of July 31, 1981)

	Total	Percent of total
Khmer	123,131	53
Ethnic Lao	39,259	17
Highland Lao	55,785	24
Vietnamese	13,932	6
Total	232,107	100

In addition about 190,000-200,000 Khmer live in encampments along the length of the Thai-Cambodian border.

Average monthly arrival rate so far during 1981 is about 5,930 (of which 2,230 are boat refugees), compared to average monthly arrivals in 1980 of 10,477 (of which 1,796 were boat refugees).

UNHCR is responsible for care and maintenance of refugees in camps and holding centers and provides a basic diet, as well as shelter, electricity and water. UNICEF provides food to the border Khmer. ICRC and WFP play supporting roles to UNHCR and UNICEF.

Some 60 private voluntary agencies and international organizations provide supplementary care, including medical services, educational programs, and supplementary food to refugees in the camps and holding centers.

REFUGEE FLOW TRENDS AND CHARACTERISTICS

Laotians

Early influx to Thailand (1975-1977) was predominantly from Laos, especially officials of the previous government. Among this group were significant numbers of Lao highlanders, primarily Hmong, who had been attached to United States-sponsored guerrilla units. The influx of Lao increased dramatically in the 1978-1980 period as a result of a harsh military campaign against the Hmong allegedly including use of gas and chemicals, government expropriation of business and property, incarceration of persons in "re-education," or "seminar," camps, and communalization of agriculture.

The flow from Laos has been significantly reduced this year following imposition of deterrents by the Thai Government including detention of all post January 1 Lao arrivals and their transfer to an austere camp in a remote Northeastern province from which third country resettlement is not possible.

Vietnamese

Vietnamese boat refugees did not begin arriving in Thailand in appreciable numbers until about 1977-1978. Since then, despite obstacles, including a high incidence of pirate attacks usually resulting in robbery, death or rape, boats have continued to arrive in Thailand in steady numbers. So far this year, boat arrivals total 15,624 compared to 14,942 during the same period last year, although arrivals for July—only 200—are far below average. The average number of people per boat is low, about 30-40 people.

Since late 1979 about 7,000 Vietnamese (including Army deserters) have crossed Cambodia to seek asylum in Thailand; the Thai Government, in May 1981, ceased to give them asylum and several hundred are now in a precarious situation along the Thai-Cambodian border.

The RTG is considering deterrents for Vietnamese refugees similar to those applied to Lao refugees.

Khmer

Relatively few Cambodians were able to escape from Khmer Rouge control during the 1975-1979 period—about 34,000—but, after the Vietnamese invasion and occupation of Cambodia in early 1979, tens of thousands of Khmer, many of Chinese ancestry, fled to the Thai border.

From October 1979 until mid-1980, the Royal Thai Government allowed about 165,000 Cambodians, forced across the border by famine and fighting, to enter five temporary holding centers. The Khmer refugee situation has stabilized; limited resettlement during 1980-1981 has reduced the holding center population to about 100,000 and about 200,000 persons remain along the border.

Present efforts of the UNHCR and Royal Thai Government, supported by the United States and other nations are to promote voluntary repatriation of the Cambodians, although there will probably be a substantial residual population after voluntary repatriation has run its course.

RELIEF

In the fall of 1979, in response to the huge influx of Cambodians, a major relief effort was mounted under the auspices of the International Committee of the Red Cross (ICRC), UNICEF and the World Food Program to care for Khmer at the border and in the holding centers. From late 1979 through the end of 1980, Western donor nations contributed to the Kampuchea relief effort over \$450 million, of which the United States share was about \$130 million. Private Western donations through voluntary agencies amounted to well over \$100 million.

This effort was expanded in January 1980, to include a "land bridge"—direct distribution of food, rice seed and tools to peasants who carried the commodities back to their homes in the interior of Cambodia. Of particular importance was the rice seed distributed at the border directly to Khmer farmers who had no other source of seed; 25,000 M.T. were distributed during April-June 1980 which was largely responsible for ensuring a 1980-1981 harvest.

RESETTLEMENT

There are 27 countries which have resettled refugees from Thailand including the United States, which has accepted about 225,000 persons over a six year period.

Since late 1980, refugees departing for the United States have generally undergone three-month English language and cultural orientation courses at processing camps in Thailand, or at a Refugee Processing Center (RPC) in the Philippines or Indonesia.

All U.S.-bound refugees are resettled by one of a dozen U.S. private resettlement agencies; a high proportion of the large Indochinese refugees have settled in California, with large numbers also going to Texas, Washington, Pennsylvania, Illinois, Minnesota, Oregon, and New York.

Local (Thailand) settlement of Indochinese is not currently acceptable to the Royal Thai Government.

ORDERLY DEPARTURE PROGRAM

Background.—The Orderly Departure Program (ODP) seeks to discourage the flow of boat refugees by providing the alternative of an orderly and direct departure abroad to Vietnamese seeking resettlement. At the July 1979 Geneva Conference on boat refugees, Hanoi agreed to stop boat departures in return for third countries accepting people directly from Vietnam. The U.S. program operates under UNHCR auspices and features an exchange of name lists between Vietnam and the United States; those appearing on both lists are permitted to leave Vietnam for resettlement in the United States.

Processing.—The ODP office is staffed by USG and Joint Voluntary Agency (JVA) employees, the latter under a contract arrangement with the U.S. Government. Since there is no direct personal contact with applicants, the ODP office communicates by mail with sponsors in the United States or with applicants in Vietnam to document eligibility for the Program. Each case is carefully scrutinized by a U.S. Consular Officer to ensure it is complete and fully in accord with United States legal requirements. Those determined eligible are placed on the United States list. The United States list goes to the UNHCR representatives in Hanoi for transmittal to the Vietnamese. The Vietnamese prepare their own lists of people who have applied and have been given permission to leave. When there are matches between the two lists the names go on a Joint List for actual movement. In practice the Vietnamese do not review the list of U.S. nominees systematically. Instead the ODP

office screens Vietnamese lists for people who have been found eligible to enter the United States. It is these cases which have eventually moved to interview and departure.

Under an agreement between UNHCR and Hanoi, those on the Joint List receive medical examinations in Vietnam and are interviewed by an American JVA case-worker assigned to UNHCR. The results of the medicals and interviews are forwarded to Bangkok for U.S. consular clearance. As a final check, U.S. Consular Officers fly to Ho Chi Minh City for interviews of departees at the airport, leaving the same day for Bangkok. Onward travel to the States is arranged by the Intergovernmental Committee on Migration (ICM).

Accomplishments and prospects.—Prior to the above arrangements, between January and October 1980, the United States accepted some 600 people in small groups on Air France flights from Vietnam. Under the ODP, an additional six flights took place on a December 1980–January 1981, successfully moving 1,358 people. Since then the Vietnamese have not allowed further flights. We are not sure why. Possibly the suspicion-prone Vietnamese have had second thoughts about American interviews in Vietnam. The general poor state of United States-Vietnamese relations and Vietnamese bureaucratic inefficiency also may be contributing factors. Our objective continues to be the movement of about 1,000 people a month to the United States as a means of deterring boat departures by providing a viable alternative and of achieving the reunification of Vietnamese families already in the United States.

In the meantime, we have agreed to take, without interviews in Vietnam, some 600 people who had been approved for Air France flights from Vietnam before the Vietnamese terminated that program last October. Of these, just under 300 have arrived in Thailand to be interviewed by Consular Officers (if immigrants) or INS Officers (if refugees) and processed to go to the United States. Once the list of these people is finished, there will be no further movement until the impasse over interviews inside Vietnam is resolved.

The ODP office now has nearly 60,000 cases in its files. These represent about 180,000 individuals in Vietnam and 50,000 sponsors in the United States. There are only 600-650 names now on the Joint List. Building it up is slow because of the documentation required and general Vietnamese unresponsiveness. We anticipate the Joint List to grow to about 2,000 by September, giving prospects for sizable movements if present Vietnamese intransigence ends.

Almost without exception the people who have left Vietnam under ODP have had close relatives—spouses, parents, children or siblings—in America. Only a handful have been non-family reunification (Category 2—former USG employees) refugees, and most of those also had close relatives in the United States who might have qualified them for family reunification or immigrant status. Indeed, over half the ODP departees in 1980/81 actually received immigrant visas and more might have except for lack of current priority dates. Most cases in ODP files are family reunification cases. Over 80 percent of the people who have departed under ODP have been ethnic Chinese, reflecting the SRV's greater willingness to let out this disliked and suspect minority group. Ethnic Vietnamese permitted to depart have been mostly the wives and children of men who left Vietnam in 1975 and 1976.

Table of statistics

A. ODP case and ODP lists:

Total cases August 1981.....	60,000
September 1981 (estimate).....	70,000–80,000
On U.S. list August 1981.....	28,472
September 1981 (estimate).....	35,000
On joint list July 1981.....	600–650
September 1981 (estimate).....	2,000

B. ODP departures/movements:

Departures on Air France flights January–September 1980 (no interviews in Vietnam).....	633
Departures under HCR–SRV aide memoire (with interviews in Vietnam) December 1980–January 1981.....	1,358
Departures of “leftover” Air France cases (people cleared for departure before September 1980).....	297
Total leftover cases.....	640
Departed.....	297
Remaining.....	343
Total departures.....	2,288

ANNEX 8

CONGRESS OF THE UNITED STATES,
HOUSE OF REPRESENTATIVES,
Washington, D.C., August 1981.

Hon. KAYSONE PHOMVIHAN,
Prime Minister, Council of Ministers,
Vientiane, Laos.

DEAR MR. PRIME MINISTER: The undersigned Members of the House of Representatives and the United States Senate are respectfully requesting that the Government and the people of the Lao Peoples' Democratic Republic, in the spirit of humanitarianism which is characteristic of the Lao people and the Lao Government, assist the United States in our search for information on our Americans who never returned from Laos after the conflict in Southeast Asia.

Our Government is most anxious to secure information on our Americans. As you know, families have waited for information, remains, or the return of their loved ones for nearly a decade. Being a truly humanitarian people, you must understand the toll that this long wait has had on the parents, wives and children of our missing servicemen and civilians.

It is the intention of the United States Government to request special assistance from you, as we understand and respect the unique and special circumstances of the "Laotian Chapter" in the story of the Southeast Asian conflict. We are most cognizant of your special needs and are looking forward to embarking on a solid course leading to constructive dialogues between our nation and yours. We hope that in the very near future, we will be able to provide our families with information on over five hundred Americans who were shot down or captured in your nation during the past decade and a half.

We trust that our request will not fall upon deaf ears, and we are anticipating your response.

Sincerely,

Congressmen Benjamin A. Gilman, Robert K. Dornan, Senator S. I. Hayakawa; Congressmen John LeBoutillier, David Dreier, Harold Hollenbeck, C. W. "Bill" Young, Henry Hyde, Stephen Solarz, Tom Hagedorn, Robert J. Lagomarsino; Senators David H. Pryor, Strom Thurmond, and Rudy Boschwitz.

ANNEX 9

DEPARTMENT OF STATE BRIEFING PAPER: LAOS

BILATERAL ISSUE—POW/MIAS

A proper accounting for Americans missing in Laos as a consequence of the Vietnam War is the principal bilateral issue in our relations with Laos. The numbers involved are:

Missing.....	9
POW.....	1
Presumed dead.....	360
Killed in action/body not recovered.....	189
Total.....	559

Between 1962 and 1975, 20 Americans who had been missing in Laos were returned (9 in Hanoi in 1973 after the signing of the Paris Peace Accords). In August 1978, the LPDR returned four sets of remains (two of which were later determined to be non-American) to Codel Montgomery.

Our Embassy in Vientiane has made repeated representations to the Lao Government on the importance of accounting for missing Americans. Although Lao Foreign Ministry officials assure us that they understand our concerns about missing Americans, they have never responded positively to our proposals for actions which might be taken to further the accounting process. These proposals include:

Setting up a counterpart organization to work with our Embassy in Vientiane and the Joint Casualty Resolution Center (JCRC) on MIA matters; permitting a JCRC team to visit Laos; inviting a Lao team to visit JCRC headquarters and the Central Identification Laboratory in Hawaii; cooperation in access to crash sites, including joint visits; and providing information on MIAs which is known to exist in the military museum in Vientiane.

POW/MIA families have been especially concerned about reported sightings of live Americans in Laos. All such reports are carefully investigated; none has yet been substantiated. In response to our Embassy's efforts to pursue the possibility that live POWs might still be in Laos in some unrevealed status, the LPDR stated by diplomatic note in February 1980: "To the knowledge of the Lao government there are no longer any Americans present in Laos in the status of deserters, as prisoners on criminal charges, as former American citizens who have accepted Lao nationality, or in any other status." Deputy Foreign Minister Khoun Chandeng repeated this position to Chargé Moser at our July 4, 1981 reception. However, severe restrictions on the travel of foreign diplomats has precluded independent verification of these assertions. Moreover, the Lao have done little to substantiate their claim by providing information on the cases of persons known to have been captured alive, whose fate has never been disclosed.

The disappointing results of official efforts to obtain a proper accounting for Americans missing in Laos has led some family members to turn to private groups and individuals who claim that through cooperation with Lao resistance organizations they can provide remains of dead Americans. Some remains have been obtained in this way; however, such efforts usually involve illegal crossing of international boundaries and requests for payment for providing remains. As a matter of policy the U.S. Government does not pay ransom for remains of American personnel.

Expressions of concern about the proper accounting for Americans missing in Laos by Congressional delegations will serve to impress upon the Lao Government the depth and extent of interest in this issue among Americans.

ANNEX 10

EAST TIMOR

POLITICAL AND MILITARY SITUATION

Following the outbreak of fighting among the various political factions in East Timor in August 1975, the effective loss of Portuguese control and the assumption of a dominant position by the leftist, anti-Indonesian Fretilin group, Indonesia became concerned that an independent Portuguese Timor would constitute a threat to Indonesia's security by providing an opening for communist influence and subversion. After a Fretilin declaration of independence in November, Indonesian "volunteers" landed in Timor and fighting rapidly declined as Fretilin forces were pushed out of the main population centers.

The U.N. Security Council unanimously adopted a resolution which regretted Portugal's failure to discharge its responsibilities in Timor, deplored Indonesian intervention, called on Portugal to cooperate with the U.N. to enable self-determination to take place and on Indonesia to withdraw its forces, and asked the Secretary General to send a special representative to Timor on a fact-finding mission. This mission produced a report which was mildly critical of both sides. The United States abstained on the Security Council resolution, but has voted against resolutions drafted by Fretilin supporters in the UNGA in 1976, 1977, 1978, 1979 and 1980.

In East Timor a provisional government petitioned Jakarta for incorporation, and East Timor formally became the 27th province of Indonesia on July 17, 1976. Indonesian leaders have stated at the United Nations and in other international fora the position of their government that the people of East Timor exercised their right to self-determination when they petitioned Indonesia for integration, and the situation in East Timor is now properly only an internal matter for the Indonesian Government.

Fretilin guerrilla activity has steadily declined in intensity and is now confined to small bands operating principally in an isolated area at the extreme eastern tip of the island. As a consequence of its return to relative normality, Timor's status within the Indonesian military command network was regularized in early 1979. A general amnesty decreed in August 1976 for members of Fretilin forces who surrendered to Indonesian authorities is still in effect. Over 200,000 Timorese civilians have left Fretilin areas and moved close to towns and cities.

Charges by Australian James Dunn that Indonesian forces were guilty of atrocities in East Timor were the subject of an HIRC subcommittee hearing in Washington in 1977. While accurate information on casualties in East Timor is scarce, there was heavy fighting for several months and some excesses were undoubtedly committed by both sides. Indonesian units reported involved in excesses were quickly

recalled and disciplined. Additional hearings focusing especially on Indonesian and international relief efforts in Timor were held in December 1979.

With gradual improvement in the security situation and the initiation of international relief efforts in 1979 (see below) an increasing number of diplomats, international officials and journalists have been allowed to visit East Timor. The resulting publicity, along with critical reports provided by refugees leaving the province, has helped to stimulate renewed interest in the Timor situation among certain groups in the United States and in Congress. Additional hearings were held in June, 1980 on the human rights and relief problems in East Timor.

The International Committee of the Red Cross (ICRC) is working on the problem of Portuguese citizens in East Timor who desire to return to the mother country. Indonesia has recently asked the Dutch, who represent Portugal in Jakarta, to act as an intermediary in resolving the emigration question. Meanwhile, Australia has been operating a family reunification program for East Timorese with relatives in Australia.

THE U.S. POSITION

The United States has welcomed decolonization of the former Portuguese colonies and we have stated that we would accept any outcome agreed upon by the parties concerned and the people of Timor but that we do not intend to become directly involved in this issue. The U.S. accepted the incorporation of Portuguese Timor into Indonesia in 1976 and this position has not changed under succeeding Administrations. Before incorporation, the GOI was made aware of the difficulties in United States-Indonesian relations that could arise over the use of U.S. grant or FMS military equipment by the Indonesian forces in Timor. Some U.S. weapons were used by the Indonesians in December 1975, and the Administration immediately ordered a hold on new deliveries of equipment until June 1976, while the confused situation in Timor was reviewed.

The United States Government does not claim that there has been a valid exercise of the right of the people of East Timor to determine their own future, but this is not inconsistent with U.S. recognition of the status quo. The United States supports whatever will realistically best serve the well-being of the inhabitants of East Timor under existing circumstances.

RELIEF AND DEVELOPMENT EFFORTS

East Timor is located in an arid, remote island area which is one of the poorest regions of Indonesia. Rugged mountainous terrain and an inadequate physical and human infrastructure (a legacy of centuries of neglect by the Portuguese) make relief and development efforts extremely difficult. The special needs of the thousands of malnourished refugees who moved to government controlled areas during the past two years and a lower than usual rainfall in 1979 have further aggravated conditions there.

As a result, the Indonesian Government, despite substantial special budget allocations for East Timor, found itself unable to meet all the requirements of the situation and in April 1979 asked the International Committee of the Red Cross (ICRC) and Catholic Relief Services (CRS) to conduct surveys with a view to instituting emergency relief programs. Actual relief efforts consisting of medical care, food, and seed for new crops started in September 1979 and led to a rapid improvement in the overall health conditions of the more than 200,000 most needy who were targeted for assistance. With the passing of the emergency situation both relief programs have now ended. However, ICRC will continue supporting Indonesian Red Cross projects in East Timor under overall supervision of a representative based in Jakarta. CRS is currently discussing the possibility of shifting to a longer term development program.

The U.S. Government has given its full support to these programs from the planning stages. We have contributed \$2,300,000 in funds to the ICRC program and \$11,039,088 in funds and commodities to the CRS effort. On June 1 an additional contribution of \$200,000 was made to ICRC to support continuing food and medical assistance and a recently established operation to trace displaced persons in East Timor.

The Indonesian Government's own development program in East Timor emphasizes regrouping the neediest of the population into 150 resettlement centers. These are located where the land is relatively fertile and near such communications routes as exists. Housing, education, medical programs, and other basic necessities can thus be provided more easily and efficiently than would be the case if people remained dispersed in isolated and inaccessible areas. Other Indonesian develop-

ment objectives include much needed road construction and repair, improvement of food production and educational facilities, and repair of irrigation systems.

We are exploring the possibility of U.S. participation in the Indonesian development program. The Ministry of Health and USAID have signed a \$3.6 million loan agreement for a Malaria Control Program for all of Timor Island. Initial feasibility studies have been completed and implementation began in June. In addition, the GOI has extended the Rural Works (Padat Karya) project to East Timor. Five subprojects are planned for fiscal year 1980-81. USAID will reimburse the GOI for these subprojects when they are successfully completed.

ANNEX 11

PEACE CORPS/MALAYSIA

PURPOSE AND MISSION

The three goals of the Peace Corps are:

To promote world peace and friendship by making available to interested countries Americans willing to serve overseas who will help people of these countries meet their needs for trained manpower; to help promote a better understanding of the American people on the part of people served; and to promote a better understanding of other people on the part of the American people.

These three original goals of the Peace Corps remain our guiding light and define the purpose of the Peace Corps Program in Malaysia.

The Peace Corps has been working in what subsequently became Malaysia since 1962. In the ensuing 18 years over 3,000 Americans from all walks of life have served in Malaysia. They have served in the fields of education, agriculture, health, public works and community development. Nowhere has Peace Corps' effort been more sustained than in the field of education. Immediately after the formation of Malaysia the government took steps to increase the number of schools. There simply were not enough trained teachers and as a result the Peace Corps was called upon to supply teachers to teach until such time as Malaysian teachers could be trained. To that end, the Peace Corps supplied primary, secondary, vocational education and university level teachers. It would not be an exaggeration to say that most members of the Malaysian civil service between the ages of 25 and 35 probably were taught at one time or another by a Peace Corps Volunteer. The Peace Corps still provide Volunteers in the field of education but for the most part these teachers teach subjects such as math and science at the secondary level. These Peace Corps Volunteer teachers are rapidly being replaced by Malaysian teachers and this is how it should be. In the field of agriculture, Peace Corps Volunteers have served in a wide range of activities including soil studies, working as agronomists, as livestock specialists and the like. In the field of health, Peace Corps Volunteers have served in a similarly wide range of activities including malaria eradication, drug rehabilitation, social welfare and building water supplies.

At the present time there are 107 Volunteers serving in Malaysia. In addition, there are 15 undergoing training in Kuantan. Of these 107 Volunteers, 36 serve in Sabah and 71 in West Malaysia. Fewer than 5 serve in Kuala Lumpur. Some 37 of these serve in the field of education as math-science teachers at the secondary level, as vocational instructors in the technical schools and as science lecturers in the universities. Another 4 Volunteers serve as business advisors and marketing specialists for rural agricultural cooperatives, as agronomists and soil scientists, as dairy extension workers to smallholder dairy farmers, as advisors to a youth farm scheme which is similar to the United States 4-H program. In the field of health there are 25 Volunteers. These Volunteers work in malaria eradication, T.B. control, rural nutrition, social work, drug rehabilitation, speech therapy and physical therapy.

All of these Volunteers are fully integrated into Malaysia's development efforts. In fact it is only after the Malaysians have satisfied themselves that there is no Malaysian that can do the job and that there is a Malaysian in training somewhere that can take over from the Volunteer or work alongside the Volunteer that they request assistance from the Peace Corps.

Volunteers serve two years in the first instance. They receive a living allowance of approximately 200 U.S. dollars per month. Part of this living allowance is paid by the Malaysian Government. The Malaysian Government provides housing and work related transport. For every month that a Volunteer serves he or she accrues U.S. \$125 in an account in the United States for use in readjusting to life in the United States.

All Volunteers are given approximately 10 weeks of training in Bahasa Malaysia, the national language, in the customs of Malaysia and in the technical field in which he or she will be working. Teachers, for instance, are trained especially hard in Bahasa Malaysia as they are expected to teach in that language.

As with any such undertaking there have been problems but on balance it would be safe to say that the Peace Corps program in Malaysia has been a productive undertaking for both countries and for all the individuals, both American and Malaysian, who have been touched by its presence.

ANNEX 12

INVESTMENT CLIMATE OF SINGAPORE

SUMMARY

Efficient, honest government, excellent labor/management relations and a relatively well-educated and skilled workforce combine with a well-developed infrastructure of transportation, communication and finance to make Singapore exceptionally attractive to U.S. investors. Rapid economic progress has been accompanied by pragmatic political leadership and both of these trends are expected to continue. Other industrialized countries are increasing their trade and investment ties with Singapore, although the United States is still the largest single investor country and trading partner.

INTRODUCTION

In contrast to the attitudes of many developing country governments toward foreign direct investment (FDI), that of the Government of Singapore (GOS) is exceptionally positive and encouraging. Singapore's policy is to encourage the establishment of export-oriented industries with relatively high technology and skilled labor content. A number of generous financial incentives are available through the Economic Expansion Incentives Act. The Act is administered by the Economic Development Board (EDB), Singapore's one-stop investment promotion agency, which efficiently assists foreign private investors to establish themselves in the local manufacturing sector. In this city-state republic, a keen awareness exists of the benefits of FDI in terms of employment, technology transfer, tax income and overall positive impact on the local economy. Given its small land area, complete lack of natural resources and minimal agricultural sector, Singapore must depend on trade and other services, such as tourism, finance, transportation and communications, to grow and develop, although over 23 percent of GDP now consists of manufactured goods. A pragmatic political leadership in power even before full independence in 1965 has kept practice close to theory, and FDI has been consistently encouraged by the GOS from many sources, especially the United States, Europe, Japan, and Australia. Obstacles to establishing a manufacturing or service operation have been substantially eliminated and there are no foreign exchange controls to block the repatriation of capital, nor restrictions on the foreign ownership of manufacturing operations here. There has never been a problem of expropriation or Singaporeanization, nor is such a problem likely to arise.

POLITICAL STABILITY

Prime Minister Lee Kuan Yew, 57, has been the leader of Singapore since 1959, guiding it from the British colonial days of internal self-government (1959-1963) through the Malaysian Federation period of 1963-65 and on to complete independence on August 9, 1965. His staunchly anticommunist party, the People's Action Party (PAP), has controlled the island's politics by implementing socio-economic programs to meet the needs of the voters. In the December 1980 elections, the PAP won every one of 75 parliamentary seats. There is little likelihood that any political or military group will replace the PAP as the ruling group in Singapore in the foreseeable future. The older government leaders have carefully trained promising younger officials to assume second generation leadership. The government has an excellent reputation for honesty, efficiency and foresight. Recent efforts to improve or alter the socio-economic structure of Singapore have focused on learning Mandarin, improving the education system, industrial restructuring, reorganization of the labor movement and the strengthening of grassroot political organizations.

Singapore is a member of the active Association of South-East Asian Nations (ASEAN), a five-nation regional economic grouping, which also includes Malaysia, Indonesia, Thailand and the Philippines. ASEAN's bilateral economic negotiations

with developed countries increased substantially in 1980, and ASEAN also exhibited its political cohesion in the U.N., in the Non-Aligned Movement, and in bilateral discussions with the United States, the EEC and Australia.

The armed forces are substantial for a country of only 2.4 million people and 226 square miles. Mr. Lee has characterized his defense policy as the "poison shrimp" theory whereby an aggressor country would find swallowing Singapore a very painful experience.

ECONOMIC PROGRESS

Singapore has made such rapid progress in recent years that it has become one of the most economically advanced developing countries in the world. Following extraordinary double digit growth rates in the early 1970's, Singapore's economic growth (GDP) was slowed by the world recession to 4 percent in real terms in 1975 but rebounded to a healthy 9.3 percent real growth in 1979 and 10.2 percent in 1980. Of a total workforce of one million, the unemployment rate fell from 3.3 percent in 1979 to 3.0 percent in 1980.

Inflation as measured by the Consumer Price Index rose 4.0 percent in 1979 and 8.5 percent in 1980. (The expatriate cost of living index compiled by the Singapore International Chamber of Commerce, however, rose by 16 percent in 1980.) The results are that Singapore had a US\$10.4 billion GNP (current prices) in 1980 which worked out to US\$4,325 per capita for last year.

TRADE AND INVESTMENT

Singapore's total trade (excluding trade with Indonesia) totalled US\$43.4 billion in 1980. After Malaysia, the United States was Singapore's best customer in 1980, buying US\$2.5 billion in Singaporean products and selling over \$3.3 billion to Singapore, mainly electronic components, non-electrical industrial machinery, aircraft, chemicals, and chemical products, scientific instruments, foodstuffs and oil rig parts. Other major trading partners are Indonesia, Japan and the EEC. According to an Embassy survey of U.S. investment in Singapore, total investment (including current and fixed assets) was US\$2.5 billion at the end of 1980 of which about US\$1 billion were fixed assets in the manufacturing sector. U.S. investments are large in the oil refining industry (Singapore is the third largest oil refining center in the world after Rotterdam and Houston with five refineries operating—two United States, two non-United States, and one United States/Singapore joint venture), shipbuilding, including offshore oil exploration rigs, and ship repair (Singapore's ports ship more cargo tonnage per year than any other port except Rotterdam and Yokohama), and electronics (over twenty U.S. firms manufacture electronic components and electrical consumer products in Singapore). Of the 134 local and foreign banks operating in Singapore, especially in the \$60 billion Asia Currency Market, 33 are U.S. branches or representative offices.

According to the EDB, foreign investment from all sources in fixed assets in the manufacturing sector was US\$3.3 billion at the end of June 1980, up 20 percent from 12 months earlier. While the United States is the single largest investor in Singapore, several other countries are quickly adding to their stakes here. Completion of a US\$1 billion proposed petrochemical complex in the early 1980's, which is about 70 percent Japanese-controlled, would increase Japan's stake substantially in Singapore. Excluding the petrochemical project, 1980 net new investment commitments were \$675 million, 86 percent from foreign investors, and up 53 percent over 1979. The petroleum refining and electronics industries were major beneficiaries. Both total European and Far Eastern investments in manufacturing already exceed that of the United States, with Dutch, British, and Japanese firms leading the group. Australian investment is on the upswing. In general, most developed countries are increasing their investment commitments in Singapore, clearly an expression of confidence in the local economy and the investment climate.

The outlook for future increases in trade and investment is favorable. Much depends on world economic conditions, especially the state of the United States and European economies which directly affect major Singapore industries such as electronics. Developed countries' protectionist policies, which would harm Singapore's growth of manufactured goods exports, and could reduce the attractiveness of the investment climate for export-oriented enterprises, are one of the Republic's major worries. Regionally, the continuing development of the Association of Southeast Asian Nations as a cooperative economic grouping could eventually present some new market opportunities. Finally, a further small depreciation of the U.S. dollar relative to the Singapore dollar during 1980 makes exporting easier but investing more expensive.

INVESTMENT INCENTIVES

The EDB makes available a range of investment incentives, and uses them to attract high technology, skilled-labor intensive, and export-oriented manufacturing industries. Substantial fiscal incentives are granted to investors qualifying for pioneer status (full exemption from the 40 percent corporate tax for 5-10 years), large expansion projects (over U.S. \$4 million) of existing firms can obtain tax exemptions of up to 5 years, and export status operations (over 20 percent exported of total sales of at least U.S. \$200,000 per annum) pay only 4 percent tax on export sales profits. Additional measures adopted in 1979 permit a five-year reduced companies income tax rate from 40 percent to 20 percent for approved companies engaged in regional warehousing and servicing of technical products, provision of technical and consultancy services overseas, export of Singapore manufactured products, and offshore trading in non-traditional commodities. 1980 tax incentives support research and development costs and computerization. Other incentives include accelerated depreciation allowance, lower tax rates for offshore income, government equity participation, labor training programs, preferential government purchases of local products, and technical advisory services. Subsidized financing for oil rig construction which supported the boom in the shipyards has been suspended pending review, but the high level of high building activity is expected to continue due to favorable market demands at least for the next two years.

The EDB also evaluates the feasibility of proposed projects and helps investors to obtain land or factory space, long-term financing and skilled manpower. Employment passes for expatriate executives are relatively simple and inexpensive to obtain for as many specially qualified persons as are required by the investor firm. Import duties are low or nonexistent and there are no export duties.

Many Singapore-manufactured products enjoy preferential customs treatment under Generalized System of Preference (GSP) arrangements with the United States, the EEC, Japan, Australia, New Zealand, U.S.S.R. and several East European countries. With the understandable exceptions of public utilities and communications media, the government does not impose any limits on foreign ownership of Singapore-incorporated companies. There is no tax on capital gains, turnover, sales, value added, nor is there an import surtax. There are no foreign exchange controls nor any restrictions on the repatriation of profits. The United States, however, does not yet have a convention for avoidance of double taxation with Singapore, so personal and corporate income tax liability must be considered carefully by investors.

LABOR

All employment and labor relations in Singapore are regulated by law (i.e., Employment Act), including working conditions such as hours, overtime pay, retirement benefits and annual leave. There are no minimum wage laws. Trade union activities are strongly influenced by the government via the National Trades Union Congress, some leaders of which are members of the PAP and parliament. Wage increases are based on guidelines set by a tripartite (government, business, labor) National Wages Council.

Before 1979 wage increases were on the order of 6-8 percent including all benefits. In mid-1979, Singapore announced its decision to move quickly away from a low-skilled labor-intensive manufacturing system toward a new industrial development strategy based on higher-skilled labor, higher technology, and capital-intensive, automated production systems resulting in higher value-added operations in Singapore. Emphasis will also be placed on better management techniques and more efficient organization of production processes. For businessmen, this means that labor costs including benefits rose about 20 percent per annum from 1979 to 1981. Beginning in mid-1982, wage increases are expected to be lower, more like 10 percent, businessmen hope. Productivity increases from 2.6 percent in 1979 to 5 percent in 1980 indicate a trend in the direction desired by government policy. Productivity gains in the future should be more closely related to wage increase demands now that the 3-year restructuring high wage increase policy has been completed. Otherwise Singapore may price itself too far out of the medium technology markets it wants to retain. The average hourly labor cost in American factories in Singapore including about 50 percent fringe benefits in Singapore is now approximately U.S. \$1.60-1.70 with assembly line workers earning about U.S. \$1.35-1.40 per hour. Normal work week is 44 hours.

Labor is relatively scarce at all skill levels. In 1980 about 50,000 more jobs were created by foreign and local businessmen, but official unemployment figures showed only a 3.0 percent unemployment rate at the end of 1980 (down from 3.3 percent in

1979). Job hopping among assembly line workers is a constant annoyance, with turnover rates at 3 to 5 percent per month. Therefore, the decision to discourage lowpaid, unskilled labor-intensive businesses in Singapore (e.g., textiles, apparel, sawmills, plywood, transistor radios, printed circuit board and other simple assembly operations) should help to reduce the future requirement for imported guestworkers (with their social-adaptation problems) while channelling more energy into upgrading Singapore's only big natural resource, its human resources. Workers laid off by no longer profitable labor intensive industries will be hired and trained by higher technology companies. The basic GOS assumption is that productivity growth will closely follow substantial wage increases due to a concerted effort by government, labor and business to help that happen through a variety of specialized training programs. The policy appears to be moving in the planned direction.

While Singapore wage rates are relatively higher than those prevailing in other Southeast Asian countries, Taiwan, and China (but lower than those of Korea and Hong Kong according to an EDB study) the training, discipline, and productivity of the workforce, and the tranquil labor environment (e.g., no work stoppages in past 4 years) make the English-speaking Singaporean labor force still attractive to American investors.

DECISIONMAKING FACTORS

On the macro level, Singapore scores extremely high marks as a potential investment site for all the valid reasons outlined above plus a high standard of living in a safe environment for expatriate families, albeit halfway around the globe from friends, family and corporate headquarters. However, the final decision must integrate a number of critical micro factors relevant to the specific product under study. Marketing characteristics, including tariffs, non-tariff barriers, and freight rates for export industries, vary, depending on the overseas markets of interest to the foreign manufacturer operating out of Singapore. While abundant and efficient public utilities are available, they are relatively expensive.

Adequate expatriate housing and company and privately-owned vehicles are also expensive compared to other Southeast Asian levels. Work permits for expatriate professional staff require more extensive documentation now than previously, resulting sometimes in administrative delays, although this is not considered a serious nuisance. The question of labor availability and price has been treated above. The bottom line is that about 600 U.S. firms now have some kind of manufacturing, sales, or service office in Singapore, and more are coming in every year. After careful comparative study, the benefits outweighed the costs for many U.S. executive decision-makers.

OVERALL ASSESSMENT

The Government of Singapore is committed to maintaining a favorable investment climate for foreign direct investment in the foreseeable future.

ANNEX 13

DEPARTMENT OF STATE BRIEFING PAPER: UNITED STATES-ASEAN RELATIONS

Founded in 1967, the Association of Southeast Asian Nations (ASEAN)—Indonesia, Malaysia, Singapore, the Philippines and Thailand—is officially an economic, social and cultural group. However, political cooperation among the ASEAN nations has become increasingly important in dealing with regional and global issues. The economic dynamism and political cohesion of the ASEAN states has made them into an important new force for peace and stability in Southeast Asia. With a population of 250 million, a wealth of natural resources, total foreign trade of \$135 billion and a location astride the strategic sea lanes between the Indian and Pacific Oceans, ASEAN has become increasingly important to U.S. strategic, economic and political interests.

U.S. POLICY TOWARD ASEAN

Three major objectives shape our policies toward Southeast Asia:

We firmly support the progress and stability of our ASEAN friends and allies as the heart of our policy toward Southeast Asia.

In cooperation with ASEAN, we seek to restrain the aggressive ambitions of Vietnam.

We seek to curb the growing Soviet military presence and influence in the region.

The Reagan Administration has made a special effort to emphasize the value we place on strong ties with the ASEAN nations. Vice President Bush has just attended the inauguration of Philippine President Marcos, Secretary Haig met with his ASEAN colleagues in June at Manila, and Singapore President Lee Kuan Yew visited Washington in June to meet with President Reagan. The White House has announced an invitation from President Reagan to President Suharto of Indonesia to make a state visit to the United States at a time to be determined later. We have renewed our defense commitments to Thailand and the Philippines (our air and naval facilities in the latter country are vital to our worldwide defense system) and the Administration is requesting increased economic and military assistance for ASEAN to bolster their development and strengthen their confidence in U.S. support.

UNITED STATES COOPERATION ON KAMPUCHEA

Since the Vietnamese invasion of Kampuchea in December, 1978, the United States has cooperated closely with ASEAN in an effort to achieve the withdrawal of Vietnamese military forces, establishment of a government acceptable to the Kampuchean people, and an end to outside interference in Kampuchea. With U.S. encouragement, the ASEAN nations have adopted a strongly unified stand on the Kampuchean issue and have achieved considerable success in building international pressure on Vietnam to agree to a peaceful settlement. This includes two U.N. General Assembly resolutions calling for Vietnamese withdrawal, and organization of an International Conference on Kampuchea, July 1981, attended by 93 nations, which proposed a plan for a political resolution of the Kampuchean situation. The United States strongly supported these ASEAN initiatives. Neither the United States nor ASEAN seeks permanent hostility towards Vietnam, but the United States has made it clear that it will not consider normalizing relations until Vietnam changes its present policies.

Within ASEAN, there is some diversity of emphasis regarding policy towards Vietnam, based on differing security concerns. Thailand, as the "front line state" most threatened by the Vietnamese military presence along its borders, favors strong pressures on Vietnam to withdraw its forces. The Philippines, while geographically more remote, has a territorial dispute with Vietnam over the Spratly Islands, is concerned by Vietnamese aggressiveness, and also favors a strong approach as does Singapore, which is particularly concerned by the growing Soviet military presence in Vietnam. Malaysia and Indonesia, because of their concerns about Chinese communist party relations with their illegal domestic communist parties, and with politically sensitive domestic Chinese minorities, view China as a greater long term threat to the region than Vietnam. All recognize the danger of Soviet-Vietnamese aggression in the area, however, and tend to follow the lead of Thailand as the ASEAN member most immediately threatened. They have thus managed to submerge their difference for the sake of a joint ASEAN approach on Kampuchea.

ASEAN-UNITED STATES ECONOMIC RELATIONS

Since the mid-1970's there has been a rapid growth in our economic relations with ASEAN. Total trade between the United States and the ASEAN countries has nearly tripled since 1974. ASEAN as a regional entity has become our fifth largest trading partner after the EC, Canada, Japan and Mexico. This trade in 1980 amounted to \$21.4 billion. In 1980 the five ASEAN countries provided about 8.5 percent of developing country imports into the United States under GSP (\$620 million). ASEAN has been recently recognized as a "regional association" opening the way for additional products to enter the United States duty free. Our principal exports to ASEAN countries are: capital goods, transportation-equipment, chemicals and agricultural products. We import from the region: natural rubber (over 90 percent), tin (76 percent), petroleum, sugar, palm oil, and increasingly manufactured goods as textiles, electrical and electronic components.

A relatively favorable investment climate, market-oriented economies, low wage costs, and abundance of resources have attracted significant U.S. investment to ASEAN. We are the largest foreign investors in the Philippines, Singapore and probably Malaysia and rank second to Japan in Indonesia and Thailand. Our direct investment at the end of 1980 amounted to over \$4 billion. Resource investment is concentrated in Indonesia and Malaysia; manufacturing in the Philippines and Singapore. ASEAN is also a large recipient of U.S. EXIM Bank loans and guarantees (nearly \$2 billion).

The United States maintains a modest (\$3 million) development assistance program directly with ASEAN in addition to bilateral programs with Thailand (\$22

million), Indonesia (\$66 million) and the Philippines (\$38.5 million). Indonesia and the Philippines receive significant amounts of PL-480, and Thailand and the Philippines, Economic Support Funds.

Commodity issues are an important aspect of our relationship with ASEAN. ASEAN has welcomed U.S. participation in the Common Fund and our adherence to the International Natural Rubber Agreement. They have urged the United States to join the Sixth International Tin Agreement and to suspend GSA tin sales.

An important vehicle for United States-ASEAN cooperation is the ASEAN-U.S. Business Council, which semi-annually brings together private business leaders from the United States, and the five ASEAN nations to discuss trade, investment and financial matters of common interests. The Business-Council has increased public awareness in the United States of the economic and political importance of ASEAN to U.S. interests.

ASEAN'S INTERNATIONAL POSTURE

ASEAN members share many western political and philosophical views, but they are also careful to maintain a credible non-aligned image. Singapore, Indonesia, and Malaysia are active in the Non-Aligned movement, and have followed a generally moderate and pro-western posture in this and other international fora. The members have avoided any implication that ASEAN is a military or regional security organization. Bilateral military cooperation has been increasing among the ASEAN members, however, in large part because of increasing Vietnamese and Soviet military capabilities in the region. Receptive to the U.S. security presence in Asia, including U.S. military facilities in the Philippines, the ASEAN states deny Soviet naval ship visits, military overflights, and in other ways curb bilateral relations with the Soviets. U.S. security and economic assistance programs help to strengthen ASEAN confidence in continuing its current favorable foreign policy orientation.

ANNEX 14

DEPARTMENT OF STATE BRIEFING PAPER: ASEAN-UNITED STATES ECONOMIC RELATIONS

TABLE 1.—UNITED STATES TRADE WITH ASEAN

(Amounts in millions of U.S. dollars)

	U.S. exports ¹			U.S. imports ²		
	1979	1980	Per- cent ³	1979	1980	Per- cent ³
Indonesia.....	981.5	1,545.1	57.4	3,620.6	5,182.5	43.1
Malaysia.....	932.1	1,366.9	43.4	2,145.6	2,577.0	20.1
Philippines.....	1,570.1	1,999.1	27.3	1,488.8	1,730.3	16.2
Singapore.....	2,331.4	3,033.2	30.1	1,467.0	1,920.3	30.9
Thailand.....	961.3	1,262.6	31.3	600.2	815.7	35.9
Total.....	6,776.4	9,176.9	35.4	9,322.2	12,225.8	31.1

¹ Free alongside ship.

² Percent difference.

Source: Department of Commerce.

TABLE 2.—ASEAN UTILIZATION OF GSP OVER THE FIVE YEARS OF THE PROGRAM

(Amounts in millions of dollars)

	1976	1977	1978	1979	1980
Thailand.....	15.1	25.7	37.6	65.6	106.8
Malaysia.....	19.4	33.3	42.4	54.8	61.7
Singapore.....	73.2	106.7	153.2	231.7	300.5
Philippines.....	59.3	77.5	71.0	136.8	135.1
Indonesia.....					15.8
Total.....	167.0	243.2	304.2	488.9	619.9

TABLE 2.—ASEAN UTILIZATION OF GSP OVER THE FIVE YEARS OF THE PROGRAM—Continued

[Amounts in millions of dollars]

	1976	1977	1978	1979	1980
Year to year growth (percent).....		45.6	25.1	60.7	26.8

Note:—Indonesia became eligible for GSP only in 1980.

TABLE 3.—U.S. TRADING PARTNERS IN 1980 BY RANK

[In billions of dollars]

Rank	Total trade ¹	Amount	U.S. Exports ¹	Amount	U.S. Imports ¹	Amount
1	EC.....	89.7	EC.....	53.7	Canada.....	41.5
2	Canada.....	76.9	Canada.....	35.4	EC.....	36.0
3	Japan.....	51.5	Japan.....	20.8	Japan.....	30.7
4	Mexico.....	27.6	Mexico.....	15.1	Mexico.....	12.5
5	Saudi Arabia.....	18.3	Saudi Arabia.....	5.8	Saudi Arabia.....	12.5
6	Nigeria.....	12.0	Korea.....	4.7	Nigeria.....	10.9
7	Taiwan.....	11.1	Venezuela.....	4.6	Libya.....	7.1
8	Venezuela.....	9.9	Brazil.....	4.3	Taiwan.....	6.8
9	Korea.....	8.89	Taiwan.....	4.3	Algeria.....	6.6
10	Brazil.....	8.0	Australia.....	4.1	Venezuela.....	5.3
11	Libya.....	7.6	China.....	3.8	Indonesia.....	5.2
12	Hong Kong.....	7.4	Switzerland.....	3.8	Hong Kong.....	4.7
13	Algeria.....	7.1	Spain.....	3.2	Korea.....	4.1
14	Indonesia.....	6.7	Singapore.....	3.0	Brazil.....	3.7
15	Australia.....	6.6	Hong Kong.....	2.7	South Africa.....	3.3
16	Switzerland.....	6.6	Argentina.....	2.6	Switzerland.....	2.8
17	South Africa.....	5.8	South Africa.....	2.5	Norway.....	2.6
18	Singapore.....	4.9	Israel.....	2.0	Malaysia.....	2.6
19	China.....	4.8	Philippines.....	2.0	Netherlands Antilles.....	2.6
20	Spain.....	4.4	Egypt.....	1.9	Australia.....	2.5
21	Malaysia.....	3.9	Sweden.....	1.8	Trinidad and Tobago.....	2.4
22	Philippines.....	3.7	Colombia.....	1.7	United Arab Emirates.....	2.0
23	Norway.....	3.4	India.....	1.7	Singapore.....	1.9
24	Sweden.....	3.4	Indonesia.....	1.5	Philippines.....	1.7
25	United Arab Emirates.....	3.0	Chile.....	1.4	Sweden.....	1.6

¹ Free alongside ship.

Note:—If ASEAN were included, it would be our 5th largest trading partner, our 5th largest export market (\$9.2 billion), and the 5th largest supplier of imports (\$12.2 billion) to the United States.

TABLE 4.—U.S. DIRECT INVESTMENT IN ASEAN YEAREND POSITION

[Amounts in millions of U.S. dollars]

	Indonesia	Malaysia	Philippines	Singapore	Thailand	ASEAN total
1966.....	106	57	486	30	51	730
1967.....	107	56	550	31	73	817
1968.....	106	63	592	46	102	909
1969.....	122	80	672	67	124	1,065
1970.....	218	105	640	97	147	1,207
1971.....	399	134	663	122	125	1,443
1972.....	563	171	644	181	147	1,706
1973.....	797	236	656	273	158	2,120
1974.....	706	375	718	361	248	2,408
1975.....	1,587	376	738	485	260	3,446
1976.....	1,469	366	810	462	276	3,383
1977.....	1,122	467	913	617	298	3,417
1978.....	1,245	349	1,003	729	313	3,639
Percent change from 1966 to 1978.....	+1,704	+512	+106	+2,330	+514	+398

Source: U.S. Department of Commerce.

Prepared: U.S. Section, ASEAN-United States Business Council.

TABLE 5.—*Eximbank Exposure in ASEAN as of Dec. 30, 1980*

[Dollars in millions]

Indonesia	\$599.3
Malaysia	47.2
Philippines	828.4
Singapore	269.4
Thailand	251.9
Total	1,996.2
ASEAN total as percent of EA total	22.1

Prepared: March 1981, EA/EP.

Regional insurance exposure as of June 30, 1980 and finance exposure as of September 30, 1980 are as follows:

TABLE 6.—OVERSEAS PRIVATE INVESTMENT CORPORATION, (OPIC) PROGRAMS IN THE EAST ASIA REGION

[In millions of dollars]

Country	Outstanding insurance			Exposure by country *	Finance
	A ¹	B ²	C ³		
Indonesia	182.7	199.1	160.6	6.3	54.5
Malaysia	40.1	43.9	41.9	1.5	—0
Philippines	191.7	169.6	138.7	5.8	—0
Singapore	14.4	15.9	21.2	0.6	—0
Thailand	54.0	53.2	40.1	1.7	5.4
Taiwan	152.0	153.4	134.5	5.1	—0
Korea	235.5	292.8	326.7	9.9	38.7
Total	870.4	927.9	863.7	30.9	98.6
ASEAN total	482.9	481.7	402.5	15.9	59.9

¹ A—Is inconvertibility coverage.² B—Represents expropriation coverage.³ C—Is coverage for war, revolution or insurrection.

* Exposure by country as a percentage of worldwide.

TABLE 7.—U.S. ECONOMIC ASSISTANCE TO ASEAN

[In thousands of dollars]

	Public Law 480		Development assistance	Economic support fund	Totals
	Title I	Title II			
Regional programs: ASEAN:					
Fiscal year 1979			805		805
Fiscal year 1980			2,415		2,415
Fiscal year 1981			3,600		3,600
Bilateral programs:					
Indonesia:					
Fiscal year 1979	104,300	6,983	92,772		204,055
Fiscal year 1980	101,300	11,014	83,000		195,314
Fiscal year 1981	50,000	10,400	66,615		127,015
Philippines:					
Fiscal year 1979	10,000	15,084	42,643		67,727
Fiscal year 1980		17,472	39,700	20,000	77,172
Fiscal year 1981		17,815	38,500	30,000	86,315
Thailand:					
Fiscal year 1979			22,000		22,000
Fiscal year 1980			17,600		17,600

TABLE 7.—U.S. ECONOMIC ASSISTANCE TO ASEAN—Continued

[In thousands of dollars]

	Public Law 480		Development assistance	Economic support fund	Totals
	Title I	Title II			
Fiscal year 1981			22,000		22,000
Total	265,600	78,768	431,650	50,600	826,018

* Continuing resolution.

ANNEX 15

OVERVIEW OF THE INDOCHINESE REFUGEE SITUATION

THE NUMBERS

1,046,000 Indochinese refugees have been resettled outside of Southeast Asia since 1975 of which 500,000 have been resettled in the United States and 546,000 in other countries.

320,000 Indochinese refugees are in UNHCR camps in Southeast Asia most of whom seek to enter the resettlement stream. Many, however, especially Hmong, wish for now to remain in Thailand and some, especially ethnic Lao, may voluntarily repatriate to Laos.

Of this total, 95,000 Khmer refugees are in UNHCR holding centers, most of whom seek to enter the resettlement stream, but significant numbers of whom may voluntarily repatriate to Kampuchea.

24,000 Indochinese refugees are in Refugee Processing Centers in the Philippines and Indonesia receiving training and orientation prior to going to their resettlement countries.

130,000 Lao, Hmong and Vietnamese refugees fled the Indochinese states during calendar year 1980, seeking new homelands and another 52,000 fled in first six months of calendar year 1981. Of this number, 66 percent were Vietnamese boat refugees and 34 percent were land refugees.

In fiscal year 1981, the President, in consultation with the Congress, authorized the admission of up to 168,000 Indochinese refugees, an average of 14,000 refugees monthly. (Admissions in fiscal year 1980 totalled 168,000.) So far, admissions in fiscal year 1981 have totalled, as of the end of June, 85,777, a monthly average of 9,531 refugees.

THE INDOCHINESE REFUGEE PROBLEM

The fall of Saigon in April 1975 and the subsequent community take-over of the Indochinese states precipitated the first wave of Indochinese refugees, primarily into the United States, during 1975. This particular outflow was regarded principally as a United States responsibility as a consequence of the defeat of those states with which we had been so closely associated. 123,000 of these people, many of whom were from among the educated Vietnamese civil and military official and professional classes, were resettled in the United States with lesser numbers going to France, Canada, Australia and a few other countries.

The outflow of refugees subsided in 1976-77 but as the newly-established regimes gradually imposed policies to restructure the Indochinese societies in a traditional Marxist-Leninist mold, a second larger wave of refugees ensued. This situation, however, is due less to the United States' withdrawal from Indochina than to the effects of these governments' new policies. Whole classes of people have been politically persecuted and disadvantaged and state control of these societies has been extended to an unprecedented extent with a consequent severe constriction of individual freedom of activity. These refugees, therefore, are an international concern in which the United States has a special interest. The United States, while not in a position to directly influence the Indochinese governments and their policies which have led to these massive refugee flows, continues to explore with UNHCR, the ASEAN states and other involved countries, all means by which this international problem can be resolved.

Of the three traditional means to resolve refugee problems, only resettlement of the Indochinese in third countries has so far been effective. National and racial antipathies have with limited exceptions ruled out local resettlement in Southeast

Asian countries of first asylum. Indeed, these feelings run so high that governments of these countries have forcibly rejected refugees at a considerable loss of life until assured of their eventual resettlement elsewhere. While there is the possibility of the resettlement of limited numbers of Hmong and Lao refugees in Thailand in the future, the Government of Thailand is not prepared to discuss the subject seriously until the continuing crisis is seen to be under control. As for voluntary repatriation, the application of doctrinaire communist policies within Vietnam, Laos and Kampuchea, make it impossible for the politically unacceptable upper and middle classes to return to their homelands. Indeed, for any group, the act of departure, however confused the motives, is grounds for punishment if caught or returned, often by lengthy prison terms and being held in lifelong suspicion, and politically, economically and socially disadvantaged.

Though very limited, some success has been achieved in indirectly influencing these refugee-creating governments to adjust their policies in the direction of moderating refugee flows. Publicity attendant to the convening of the Geneva Conference in July 1979 to deal with the Vietnamese boat people problem, led Vietnam to terminate its "assisted departures" program. Subsequently, the United States through the good offices of the UNHCR has negotiated an Orderly Departure Program (ODP) with the SRV under which persons in Vietnam may legally depart for the United States. A decline in risky clandestine departures is one of the hoped-for objectives of this program though to date, the ODP has been too small to have had this effect. And the Kampuchean relief program not only saved lives but induced as many as 300,000 Khmer to return to their homes from their transient status on the borders of Thailand, Vietnam and Laos.

Six years after the fall of Saigon, therefore, Vietnam continues to be the major disruptive threat to the peace and stability of that area, in particular, due to the presence of the Vietnamese forces in Kampuchea. The refugee situation created by that regime and its client states in Laos and Kampuchea was the principal issue in Southeast Asia in 1979-80, and continues to be a major problem without the possibility of early resolution. Within this context, U.S. policy toward the refugee flows from Indochina has five objectives:

To ensure maintenance of the principal of the first asylum for refugees in the ASEAN states and Hong Kong; to involve the world community in resolving this international problem in a humanitarian fashion; to reduce tension among the ASEAN countries and reinforce their stability; to pursue vigorously the options of local resettlement, voluntary repatriation, and third country resettlement; and to afford refuge to a significant portion of those refugees seeking resettlement as a part of the United States contribution toward an international solution of this problem.

SUMMARY FACT SHEET ON COUNTRIES OF FIRST ASYLUM

Thailand

Refugee population: 247,300 Lao, Hmong, Khmer and Vietnamese refugees (inc. 95,000 Khmer in UNHCR holding camps). U.S.-bound refugees receive intensive English language training and cultural orientation (ESL/CO) in the camps.

Thailand has received and continues to receive the greatest number of Indochinese refugees, all land refugees and a substantial number of Vietnamese boat refugees; new arrivals averaged 3,700 per month by land and 2,300 per month by boat in first nine months of fiscal year 1981.

The RTG views these persons:

As illegal immigrants; will not permit them to resettle locally (at least until the numbers in Thailand and the flows to Thailand are substantially lessened); grants them temporary asylum only with the clear understanding they will be resettled in third countries; and has in the past forcibly repatriated land refugees and pushed off boats, causing a number of deaths.

Further, as a result of a recent refugee policy review, there have been public reports of a new and harsher RTG policy toward the Indochinese aimed at seeing to the return of the Khmer and at deterring Vietnamese boat and land refugees.

Malaysia

Refugee population: 15,000 Vietnamese boat refugees.

Boat refugee flows and populations are now low relative to 1979; new arrivals averaged 2,400 per month in the first nine months of fiscal year 1981 versus 10,000 per month in the first nine months of fiscal year 1979.

Malaysia views these people:

As illegal immigrants; will not permit them to resettle locally, with the exception of about 5,000 Khmer Muslims, in light of domestic ethnic community tensions,

particularly in respect to ethnic Chinese boat refugees; grants them temporary asylum only on the clear understanding they will be resettled in third countries; and has forcibly prevented boat refugees from landing in Malaysia in the past, undoubtedly causing a number of deaths at sea.

Singapore

Refugee population: 3,200 Vietnamese boat refugees; new arrivals averaged 650 per month in the first nine months of fiscal year 1981.

Singapore will not permit boat refugees to land in that country and forcibly tows away those few boats that make this attempt, most recently within the past several months.

Singapore will permit refugees picked up at sea by merchant and other vessels to disembark but only if they are guaranteed onward movement or resettlement within 90 days by the government either of the ship's flag-country or alternatively of the country of ownership. If neither government guarantees, UNHCR provides resettlement opportunities by use of a small resettlement reserve to which several resettlement countries have contributed places in order to encourage rescue at sea of refugees in distress by all ships' masters.

Singapore is the major transit center for refugees exiting Indonesia and for refugees entering and departing the Refugee Processing Center (RPC) on Galang island in nearby Indonesia.

Indonesia

Refugee population: 5,500 Vietnamese boat refugees in first asylum and 6,500 Indochinese refugees in the RPC on Galang island.

In the first nine months of fiscal year 1979 boat refugee flows into Indonesia averaged 5,000 per month as Malaysia pushed off refugees; in the first nine months of fiscal year 1981, new first asylum refugee arrivals averaged 820 per month. Additionally, at the RPC arrivals averaged 1,400 per month and departures 860 per month in the latter period.

While Indonesia will not permit refugees to resettle locally, it has been more responsive than its immediate neighbors to granting them first asylum pending their onward resettlement.

In 1979, Indonesia offered the use of its country for a Refugee Processing Center, a holding center for resettlement-bound refugees to relieve the pressures and tensions caused by the refugees in other ASEAN countries. This RPC for 10,000 persons was completed in December 1980, and is located on Galang island where the Indonesian first asylum camp (7,000 refugee capacity) is also placed. There is presently a question if the GOI will permit not more than 10,000 refugees in the RPC and the first asylum camps at any one time. This issue is under continuing negotiation with the GOI. An ESL/CO program is now being put into place in the Galang RPC for U.S.-bound refugees.

Hong Kong and Macau

Refugee population: 15,000 Vietnamese boat refugees in Hong Kong and 1,600 in Macau; new arrivals averaged 640 per month in Hong Kong and 50 per month in Macau in the first nine months in fiscal year 1981.

Hong Kong, as a major recipient of Vietnamese boat refugees, has granted the refugees first asylum and work privileges pending onward resettlement; it has not permitted their local resettlement due to its high population density with an exception for 14,000 refugees, close family relations of Hong Kong residents who were resettled prior to 1979. It is possible that some of the ethnic Chinese might be allowed to resettle locally once the problem is seen as under control. U.S. bound refugees receive ESL/CO instruction.

Philippines

Refugee population: 5,200 Vietnamese boat refugees; new arrivals in first asylum averaged 660 per month in the first nine months in fiscal year 1981. There were 17,200 Indochinese refugees in the Bataan RPC at the end of March 1981 with arrivals averaging 2,740 per month in the first nine months of fiscal year 1981 and departures, 2,200.

The Philippines is not a major country of first asylum but at the Geneva Conference in July 1979, offered the use of its country as a site for a holding center for up to 50,000 refugees. This Refugee Processing Center is now built at Bataan for 17,200 refugees and is the location of a major ESL/CO program for U.S.-bound refugees.